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INVESTING IN PROPERTY STOCKS

JOHN KAYE WRITES VIA EMAIL:
I am interested in investing in property stocks but am averse to doing so through an actively managed unit trust due to their high cost structures, or through a passively managed index fund such as SAPY (which tracks the FTSE/JSE SA Listed Property Index), due to its large mix of stocks, including poor performers.

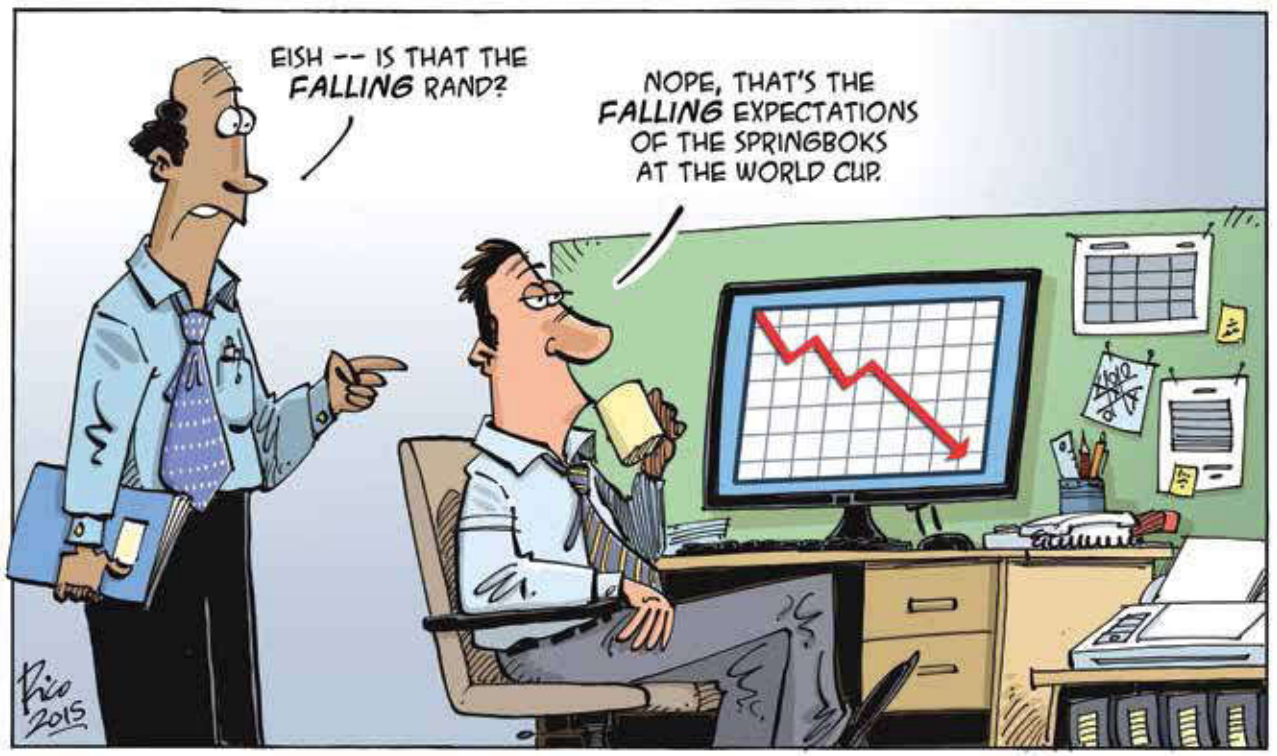
My objective is to create a small portfolio (maybe four or five stocks) which will provide both growth and a reasonable and reliable income stream. Can you advise me as to what selection criteria I should use in selecting appropriate stocks, and should I be looking at earnings yield or dividend yield as being representative of the income that I will receive?

SIMON BROWN RESPONDS:
Property really is about location, so buy properties that are well situated: Capital & Counties (whose properties include the mixed-use estates Covent Garden and Earls Court in Central London), Hyprop (its retail assets include Rosebank Mall in Johannesburg and Canal Walk in Cape Town) and Growthpoint (whose portfolio includes V&A Waterfront in Cape Town and the 100 Grayston office building in Sandton) all come to mind.

Dividend yield is important as that's the cash you'll be paid every year. You should also keep a careful eye on the growth in dividends. As rentals are typically fixed for a few years, the listed companies give fairly decent guidance as to expected growth in dividends going forward. ■

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In Brief

CRISIS IN SYRIA

$738M

The minimum amount (R9.9bn) needed by the World Food Programme to provide food to 5m people inside Syria for the rest of the year. Since the conflict in Syria began in 2011, 250 000 people have been killed and half the population have fled their homes, with 7.6m people displaced within the country and 4m fleeing beyond its borders, theguardian.com reported.

GLENCORE SELLS SHARES

$2.5BN

Value of shares sold (R33bn) by commodities group Glencore at a 2.4% discount to its closing price on 15 September, just over a week after announcing plans to pay off $10bn (R133bn) of its $30bn (R399bn) debt following pressure from shareholders. CEO Ivan Glasenberg paid about $210m (R2.8bn) to buy stock in the sale to maintain his 8.4% stake, the company said.

BEER DEAL BREWING

$250BN



Belgium-headquartered Anheuser-Busch Inbev, the world's biggest brewer, which owns Budweiser and Stella Artois, has informed SABMiller – whose brands include Peroni, Castle and Grolsch – that it wants to initiate a takeover, sending both companies' share prices soaring on 16 September. While no formal offer has been made yet, the combined group will have a market capitalisation of about $250bn (R3.3tr) and brew about a third of the world's beer, Reuters reported.

MUGABE ON REPEAT

2

The number of times Zimbabwean **President Robert Mugabe** read the same speech in less than a month. Mugabe's spokesperson blamed the 91-year-old's secretarial office for the mishap, which saw him read the state of the nation address, first delivered on 25 August, again in parliament on 15 September, reported Reuters. Following the incident, opposition party the Movement for Democratic Change (MDC) said this was a clear indication that Mugabe was no longer fit to be president.



ASIAN RICHES

4.69M

The Asia-Pacific region is now home to 4.69m dollar millionaires, according to a joint study by Capgemini and RBC Wealth Management. This means that, for the first time, this region has more millionaires than North America, reported theguardian.com. According to the report the US and Canada combined have 4.68m millionaires.

HP CUTS JOBS

<30 000

Hewlett-Packard will cut another 25 000 to 30 000 jobs following the group's planned split into two standalone companies at the end of October. HP Enterprise will focus on the IT services market, while HP Inc will be a PC and printing business. The group already cut 54 000 jobs over the past three years as part of a turnaround effort. HP currently employs about 302 000 workers, ft.com reported.

THE GOOD

The Pretoria High Court's ruling that government will not be allowed to appeal the court ruling that it acted unconstitutionally when it failed to arrest Sudanese President Omar al-Bashir, sends a clear message that government is not above the rule of law. SA authorities will also need to answer to the International Criminal Court (ICC), which had issued a warrant of arrest for al-Bashir to stand trial on charges of war crimes and genocide, according to Reuters. As a member of the ICC, SA was obliged to enforce such warrants. The ICC wants SA to explain its failure to do so by 5 October.

THE BAD

The slowdown in the world economy will continue through the remainder of the year and 2016, the Organisation for Economic Cooperation and Development (OECD) warns, with the slowdown in China and uneven pace of growth in major developed economies like Japan and the EU contributing to the uncertain outlook.

THE UGLY

From Cape Town and Stellenbosch to Grahamstown and now KwaZulu-Natal, university campuses have been rocked by protests over a range of issues this year. While the violent measures deployed by students at the University of KwaZulu-Natal (UKZN) cannot be condoned, we have to admit that the issues raised by students – a lack of transformation and institutionalised racism, unaffordable fees and largely non-functional National Student Financial Aid Scheme – are valid and need to be addressed.

"The Fed is supposed to remove the punch bowl just as the party gets going. It is already well past midnight, but the guests will keep partying until they drop if you ply them with even more alcohol." – Albert Edwards, a strategist with Société Générale, in an interview with *The New York Times* on the US Fed's much-awaited interest rate decision on 17 September. At the time of going to press, the first day of the Fed's two-day meeting to discuss increasing interest rates in the US for the first time in more than nine years was still underway. An increase would signal the end to the Fed's $3.5tr monetary stimulus programme implemented following the 2008 crash. The World Bank and the International Monetary Fund warned against raising rates, saying it should wait until the world economy is on a more solid footing.

Students take part in a demonstration against alleged racist attitudes at Stellenbosch University at the beginning of the month.



Gallo Images/ Anadolu Agency

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LETTER FROM NIGERIA. LETTER FROM NIGERIA.

A **warning** about Nigeria

It's not an easy time economically for Nigeria. The principal way of knowing this or illustrating it is by taking a look at the price of crude oil since the middle of last year. Save a recent uptick that's not done nearly enough to repair the damage, the situation isn't pretty for Nigeria's biggest export market.

Last week, underscoring to the outside investor what we inside know very well is going on, JP Morgan Chase announced plans to drop Nigeria from its Emerging Market Bond Index, giving share prices a whack and sending benchmark bond yields higher.

Assuming you're the kind of person who follows Nigeria by stock market performance and currency value, this is a big flag up on the beach, arguably the best indicator to the international investor of what's happening here after a squint at the crude price. A country that was previously an emerging markets darling because of its surging population and bumper GDP (and hey, let's not mind about the political risk, the insurgency in the northeast and the corruption) is now well out of favour. If you're me, the way you know these aren't good or easy times for the Nigerian economy are rather different.

I know because the man who sells the newspapers on the corner of my street from dawn to dusk tells me he's only bringing in ₦4 000 to ₦5 000 (naira) a day at the moment compared with ₦15 000 a day in the later months of Goodluck Jonathan's administration. When people aren't spending what a Nigerian might call "small small" cash on papers, they're certainly not spending on big-ticket items.

I know because when I go to change dollars into naira at my informal bureau de change (admittedly against the instructions of the central bank), the money changer is no longer crowing about the early promise President Muhammadu Buhari brought when he won Nigeria's general election in March.

Now he tells me he's worried about the goings-on at the central bank; Governor Godwin Emefiele has been criticised for some of the interventionist steps he's taken notionally to defend the value of the naira. My money man's also worried that, while rumours abound, there's still no finance minister in place.

I know because more and more people are coming up to me on the street and telling me they can't find work, and I know of increasing numbers of graduates qualified for work in offices and oil refineries who instead are training as hairdressers, though that's hardly an unsaturated market in Nigeria.

Between JP Morgan's announcement and my chats with the paper man, the money changer and the many, many hairdressers, the tales are very different, but the conclusions you draw are the same.

Whether you're in my sitting room in Abuja, at a business lunch in Joburg, or at your hedge fund desk in London, you can't say you weren't warned. As it says on many buildings in Lagos – where people are trying to protect against 419 scams that would sell the houses out from under their rightful owners – buyer beware. ■

editorial@finweek.co.za



A COUNTRY THAT WAS PREVIOUSLY AN EMERGING MARKETS DARLING BECAUSE OF ITS SURGING POPULATION AND BUMPER GDP... IS NOW WELL OUT OF FAVOUR.

Godwin Emefiele
Governor of the Central Bank of Nigeria

REUTERS/Afolabi Sotunde

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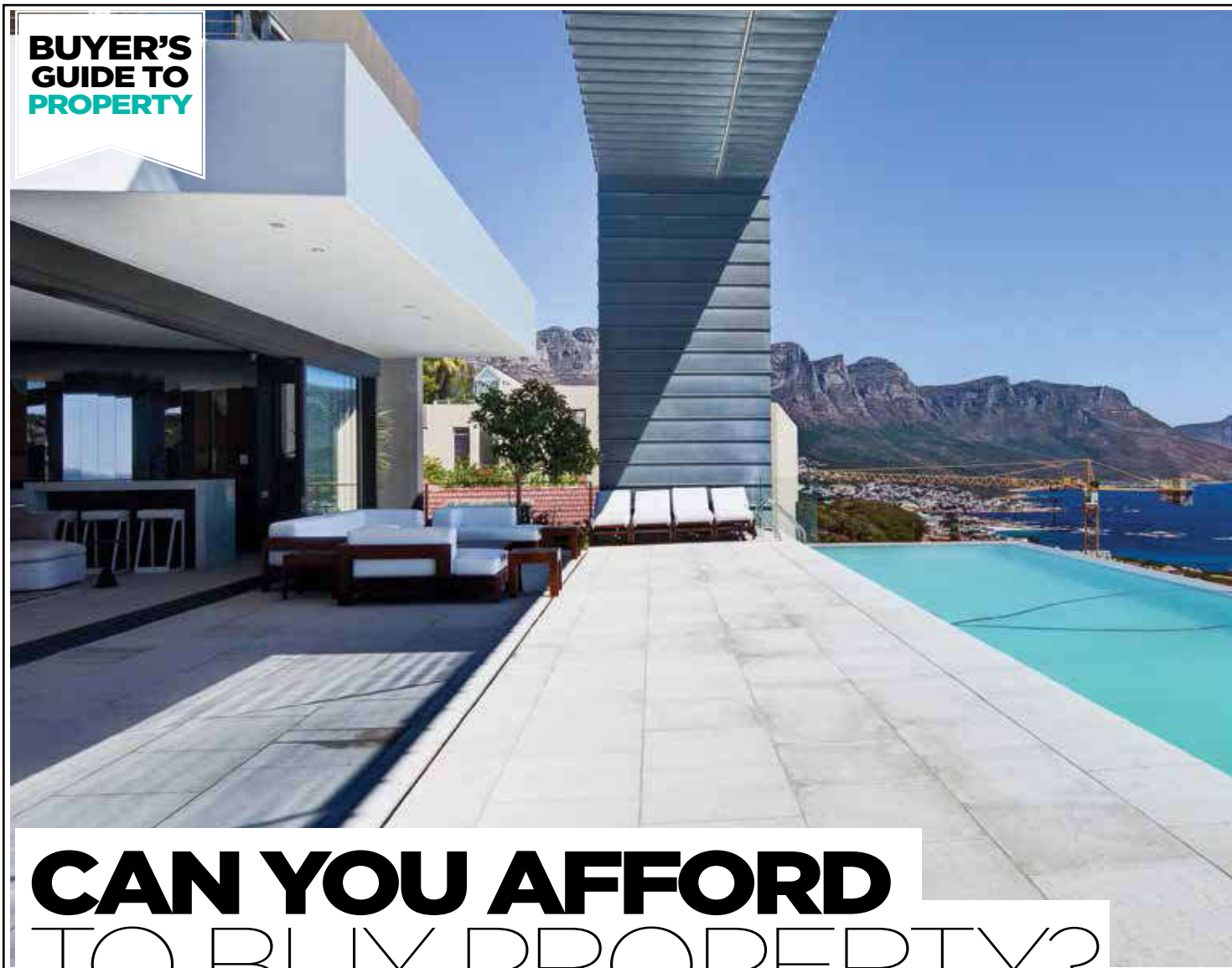
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BUYER'S GUIDE TO PROPERTY



CAN YOU AFFORD TO BUY PROPERTY?

BY GLENDA WILLIAMS

In this extensive buyer's guide, *Finweek* looks at the housing market in terms of affordability, hidden costs and other considerations prospective buyers need to take into account before purchasing property.

Buying a home is probably the single biggest financial commitment for most of us. And while it is also a very emotive decision, for many aspiring homeowners it is often as much about putting a roof over their heads as it is about sinking their hard-earned cash into a bricks and mortar asset.

Yet, not all of us will be able to tread that path, which has always been dictated by affordability, determined in turn by income and other factors such as interest rate, credit rating and deposit.

Affordability, it appears, is poorly understood. "The biggest challenge with the affordability assessment does not lie with the assessment process, but rather with the customer's interpretation and understanding of their own personal financial situation," says Carel Grönum, managing executive of Absa Home Loans.



Seeff Properties

▲ **Clifton luxury villa**
An über-luxury villa in Clifton doesn't come cheap. This one sold recently for R111m – cash! Over 70% of all transactions on the Atlantic Seaboard over the past year have been cash deals, translating to a cash investment of just over R3.97bn.

John Loos
Household and property sector strategist at FNB Home Loans

Says John Loos, household and property sector strategist at FNB Home Loans: "If you want to buy a property, you need to get a grip on what your real home costs are. It is not just about paying a bond. It's about the rates and tariffs bill; it's about maintenance, insurance, security, and so forth. And something that also needs to be taken into account is transport cost versus property costs."

Failing to take into account all costs that impact disposable income, as well as neglecting to plan for inevitable inflationary and interest rate increases, frequently results in over-commitment and the potential loss of the home, something banks are at pains to avoid. After all, that bricks and mortar asset is probably the largest single investment most of us will ever make and one that needs to be protected.

WHAT PERCENTAGE OF INCOME SHOULD BE SET ASIDE TO PAY FOR A HOME LOAN?

"The standard percentage that has been used over quite a long period is 30% of the customer's gross monthly income," says Ewald Kellerman, head: customer interaction, Absa Home Loans. "This is a guideline that can assist customers when determining the price range that they should look at for their new home. It is also important to take cognisance of the purchaser's own circumstances and lifestyle. A better measure is to consider net disposable income after all deductions and expenses."

> THE KEY IS TO PURCHASE WITHIN YOUR MEANS. AND THAT ALSO MEANS NOT RELYING ON SALARY INCREASES.

Where customers have intentionally withheld information relating to their income and expenses, not only could they find themselves in a challenging financial position if a home loan is granted, they will struggle to find protection under the NCA, cautions Kellerman. The key is to purchase within your means. And that also means not relying on salary increases or possible future income to bump up your affordability limit.

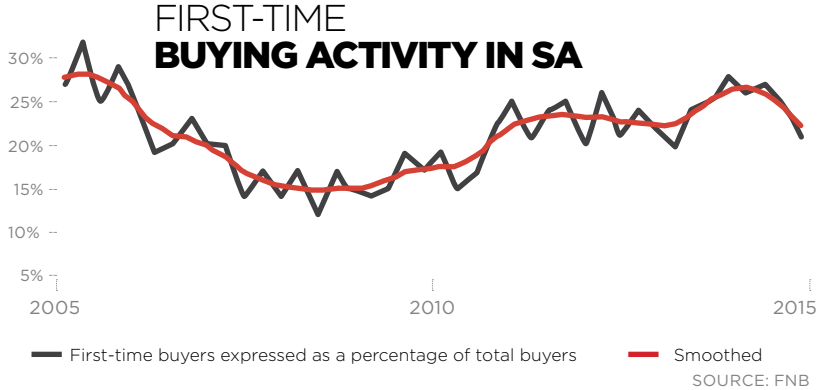
THE DEPOSIT – HOW MUCH DO YOU NEED?

A minimum of 10% to 15% of the property purchase price should be the target that customers set themselves when considering the purchase of a home, says Kellerman. "If the customer has the ability to place a larger deposit and does so, it will arguably be one of the best financial decisions they can make as a homeowner," he adds.

A deposit positively influences the application's chance of approval. "With a deposit, the home loan amount applied for would be lower, thereby reducing the required monthly instalment and positively influencing affordability factors for the applicant. Along with this, a deposit into the home loan can positively influence the interest rate applicable to the loan, i.e. the larger the deposit, the more favourable the rate concession – another positive for the customer when looking at the total interest over the full period of the loan."

TAKING FUTURE COSTS INTO ACCOUNT

Given that interest rates are comparatively low compared with those



LOCATION, LOCATION, LOCATION

You can alter the house, but not the location. Location is probably the single most important factor when buying a home, and is also a main determiner of price and value. Prices and values of properties in prime locations – those in close proximity to business districts, good schools and on good transport corridors – also tend to be more robust in challenging economic times.

"Top-end areas tend to hold their values even during an economic decline. You may not get stellar offers during a poor economic climate, but you are likely to still get a good price," says Samuel Seeff.

Some excellent areas to invest in he says are Cape Town's Atlantic Seaboard and City Bowl where property values continue to climb year-on-year or other coastal belts such as Blouberg where property values are up by up to 40% since 2007/08 and demand is outstripping supply. And provided you pay a fair price, you cannot go wrong in Franschhoek and Stellenbosch, he says.

"Johannesburg and Sandton in particular – with the rise of the Sandton CBD and its status as the financial capital of the country and continent – makes it prime real estate while strong demand from government employees and growing values make Centurion and Pretoria East good investment options."

"Any CBD that is on a regeneration and growth path like Johannesburg's Newtown, Maboneng and Braamfontein districts, is a good investment option. Cape Town's CBD for example has seen its property values practically double in just over five years," adds Seeff.

Barring any major external shocks, Dr Andrew Golding expects current market conditions to continue despite a challenging economic environment. "The housing market is characterised by a fundamental stock shortage. This shortage, like in many parts of the world, is a long-term phenomenon and will continue to drive demand for the foreseeable future and as a consequence, value preservation."

some years back, a further increase of 0.25% later in the year is not unrealistic. Prospective homeowners should be factoring in possible interest rate hikes when determining future affordability, says Kellerman. And while some banks factor in a small buffer to help protect customers against future rate increases, Kellerman says it is important to remember that it is not only the home loan instalment that increases, but also other account facilities like vehicle finance.

For those homeowners unwilling to expose themselves to fluctuating interest rates, a fixed rate option may be more to their taste.

IS COMPROMISE NECESSARY TO FIT YOUR BUDGET?

Compromise is not high on the agenda of those looking for their dream home. Whether it is compromising on location, where buyers are likely to get more bang for their buck, or compromising on size or that list of must-haves, something has to give if your budget will only stretch so far.

"The clichéd adage of location, location, location is still as relevant as ever in today's property market but affordability ultimately determines location," says Dr Andrew Golding, CEO of the Pam Golding Property Group. "When affordability impacts location requirements, a complex and often challenging decision-making process comes into play. Is lifestyle more important than access to the best schools? Are transport considerations more important than proximity to extended family, and so on? One has to carefully weigh up relative priorities and make the best possible decision having considered all options and variables."

Sometimes it works well to temper requirements and buy a smaller property to get a foot on the property ladder in the area you desire. It has worked well for many people who have paid off a chunk of their bond and moved to something bigger later when, for instance, they have established a family. Prospective homebuyers are frequently fixated on a specific location, ruling out locales that border their preferred areas that are often more affordable. "Looking on the fringe is not necessarily a bad thing but make sure it is not costing you more," says Loos.



Dr Andrew Golding
CEO of the Pam Golding Property Group

DEPOSIT **SAVINGS TIPS**

Saving for a deposit requires a rigorous budget and a disciplined spending outlook. Even those mindful of expenses on non-essential items would have to save around R2 500 each month (excluding interest) if their goal was to save a 10% deposit over a five-year period for a home costing R1.5m. No easy task, but not impossible for the disciplined.

1. SPEND LESS THAN YOU EARN. Set an achievable savings goal and regardless of the saving mechanism, allow a realistic time to build up your savings.

2. RENT SMALL WHILE YOU SAVE. A great way to save for a deposit, says Kellerman, is to rent a more affordable property. Save the extra amount you would've paid to rent a bigger property.

3. CUT BACK ON THE NICE-TO-HAVES: "The biggest money mistake we all make is to think, for example, that the R30 we pay for a coffee per day 'is not so much'... But, if you resist that spend every weekday, you can put away R660 on average per month (R7 920 per year, excluding interest)," says Kellerman. Think too of what you will save if you



Ewald Kellerman
Head of customer interaction at Absa Home Loans

"If you can't afford the one in your desired area, are you sure you can afford the one on the fringe if it comes with a huge transport cost? If the one on the fringe costs more with transport costs, then the one in the desired area is the better option."

In pursuit of their ideal property, buyers also frequently discount properties requiring upgrading or renovating, but properties such as these often present a good deal for buyers with constrained budgets.

Absa's *Homeowner Insights* report found that affordability accounted for 22% of home loan applications being declined. And more than a third of the respondents who participated in the survey had to reassess their needs once they started identifying suburbs and viewing properties they liked.

Weighed against international standards, residential property in South Africa still remains relatively affordable. According to FNB's *Property Barometer*, house prices were growing at around 8.6% year-on-year in December 2013 but gradually slowed to 4.9% in August 2015. That shift to a slower pace brought about by factors such as interest rate hikes and slowing economic growth could mean that, while a cautious approach should always be adopted when committing to a major financial investment, now could be the time when a better deal could be bagged. ■

THE HIDDEN COSTS OF BUYING PROPERTY

Those in the fortunate position of being able to afford their dream home often only factor in the deposit and are frequently caught out by other costs associated with buying property.



Transfer duty: The tax levied by Sars on a property acquisition (see table).

Transfer fees/conveyancing costs: Fees paid to the lawyer responsible for dealing with the Deeds Office and transferring the property into your name. Purchasers can expect to pay around 1% of the purchase price.

Bond initiation fee: Most banks charge R5 700, the fee allowed by the National Credit Act.

Bond registration costs: Costs to cover the administration and registration of the home loan. Buyers should budget for roughly around 1% to 1.5% of the loan amount.

Other fees: Post, petties and Fica fees from both the bond originator and lawyer come to just under R3 000.

Moving costs: Costs are dependant on the size of the load, the distance travelled as well as the time of the month, with the end and beginning of the month carrying higher fees.

TRANSFER DUTY COSTS

Value	Tax rate
0-R750 000	0%
R750 001-R1 250 000	3%
R1 250 001-R1 750 000	R15 000 + 6% of value above R1 250 000
R1 750 001-R2 250 000	R45 000 + 8% of value above R1 750 000
R2 250 001 and above	R85 000 + 11% of value above R2 250 000

SOURCE: sars.gov.za

pack your own lunch every day or put the brakes on clothing items that are not essential.

4. HOME AGAIN: Returning home to live with mom and dad for a short spell and paying them a reduced rental will not only help to save a big chunk of your deposit, but may also help family members who will profit from additional income.

5. SAVVY SPENDING: Plan your meals and buy in bulk for the week or month to save on transport costs as well as keep unit costs down. Check for specials, compare prices and keep your eyes on cash-back offerings or discounts that many retailers offer.

6. REDUCE YOUR UTILITIES BILLS: Turn off your geyser. You only need to turn it on an hour or so before use. Use cold water for washing clothes and take advantage of our wonderful climate to dry items on the line rather than incurring the exorbitant energy costs associated with tumble driers.

7. TRAVEL SMART: Arrange lift clubs for your children as well as yourself if you are working to save on fuel and wear and tear costs on your vehicle. Check tyre pressures regularly. They will last longer and save you on fuel. If you own a car that uses diesel, look out for special diesel prices.

IS IT TIME TO **UPGRADE?**

Be it an increased need for accommodation, an improvement in lifestyle or even investment objectives, the reasons influencing an upgrade to a new home may be varied but it invariably involves moving up the property ladder.

Upgrades are generally luxury, non-essential moves and, given the tougher economic environment, a smaller percentage of people are selling in order to upgrade according to FNB's *Estate Agents Survey*. "It is probably a sensible thing to have a more conservative financial approach in these times," says John Loos, household and property sector strategist at FNB Home Loans.

And even while Loos believes that economic stagnation will continue for a good couple of years, house price growth continues to outperform inflation. This, together with a shortage of stock and an oversupply of capable buyers, means that current market conditions are still favourable for investing in the property market, Dr Andrew Golding, CEO of the Pam Golding Property group tells *Finweek*. "Upgrading to a larger or better home in an appreciating market makes sense, but obviously within the financial risk and affordability parameters that the individual can prudently accept," explains Golding.

That prudent affordability slant continues. "In view of the general economic climate, we would advocate a conservative approach and would advise buyers to continue buying well within their means," says Seeff chairman Samuel Seeff.

Yet now could well be a very good time to upgrade, particularly for those still looking to benefit from low interest rates, since rate hikes may now come a little slower than initially anticipated, Seeff says. "Investing in property is always a good idea and if you can afford to upgrade, you are unlikely to go wrong, provided of course that you do your homework and pay no more than fair market value."



Samuel Seeff
Chairman of Seeff Properties



SOURCE: FNB

Moving up the property ladder may well be more attainable if, as a homeowner, you have already created equity in your current home to help fund a more expensive property. But that equity is likely to be dented somewhat by the costs that come with disposing of one property to buy another.

COSTS TO CONSIDER WHEN SELLING AND UPGRADING TO A NEW PROPERTY

- **Estate agent commission:** The amount paid to sell your existing property can range between 4% and 7% of the selling price.
- **Transfer duty:** The higher up the property ladder, the higher the costs. (see page 13)
- **Registration/bond costs & bond initiation fees:** Attorney and bond fees (see page 13)
- **Capital Gains Tax:** Applicable to the disposal of assets where a capital gain has been realised but only applies to a primary residence where the gain is in excess of R2m.
- **Compliance certificates:** Sellers are required to present compliance certificates for electricity (between R700-R1 400 assuming no electrical upgrading is needed) and gas. Depending on province, plumbing and pest certificates may also be required.
- **Other costs** to be taken into account are moving costs, increased rates and utilities, as well as the likelihood of increased insurance and maintenance costs and possible impact on travel costs.

UPGRADING AN EXISTING HOME

Increased transfer duties that came into effect earlier this year may succeed in limiting the number of buyers who decide to upgrade to a more expensive property. The knock-on effect could be that this encourages existing homeowners to renovate or upgrade their existing properties. The quest for the perfect pad does not always require a move to another property and the often prohibitive costs that come with that move. For those undeterred by a bit of renovation work, upgrading their existing property may give them their dream home for a lot less than upgrading to a larger or more expensive house. And if the existing home is already in their preferred area, it makes sense to unlock that home's potential with a makeover. Renovation costs per square metre are likely to be a good deal cheaper than the price per square metre to buy the home they aspire to.

"In an appreciating market, the opportunity to grow the value of one's home through a careful and well considered renovation makes sense in the current market conditions," says Golding. "The biggest pitfall to be aware of here is overcapitalising and in the process making the home difficult to sell at a desired price," he cautions. ■



▲ **Mill Junction** Student accommodation with a difference in Joburg's Newtown precinct.

RENT OR BUY? HELPING YOU DECIDE

Determining whether to rent or buy a property is driven by a range of factors, including economic and political uncertainty or availability of stock. A main driver remains affordability, and in an economic downturn, rental demand tends to spike. When household budgets are under pressure and home loans may not be affordable or attainable, renting is often the cheaper, or only, alternative.

BUYING

"In South Africa, there is a strong culture of owning; desiring to own one's own home both from an investment as well as a lifestyle perspective and this continues to be the dominant trend," says Dr Andrew Golding, CEO of the Pam Golding Property group. But buyers need to be reasonably certain that the property is one in which they want to live for some time. "Buying and selling a house every year or two, with a very low capital growth environment, brings with it big financial costs," cautions John Loos, household and property sector strategist at FNB Home Loans.

BENEFITS:

- **Acquiring an asset:** "The benefit of owning a home is that it is a driver of financial discipline. You have this contract with the bank that you have to honour and when you have paid off that debt you have an asset that is worth something," says Loos.
- **It's yours:** You can do what you like with your own home.
- **Stability:** You can determine when it is you want to sell and leave.
- **Equity potential:** Value-adding improvements potentially create additional equity in your property.

DISADVANTAGES:

- Hefty purchase costs (see "Hidden costs of buying property" box on page 13).
- Maintenance costs.

RENTING

"One of the major reasons for renting is that many people do not have the capital to put down a deposit and pay for the transfer duties," says Trafalgar Property Group's MD Andrew Schaefer.

The biggest demand for rental accommodation tends to come from the middle and lower income sectors where affordability is vital, says

Andrew Schaefer
MD of Trafalgar Property Group



Seeff chairman Samuel Seeff. "Affordable areas and properties that are in close proximity or have good access to main arterials, schools and other facilities tend to be most in demand."

In recent years the rental market has benefitted from the ever-increasing number of people who, for whatever reason, are unable to buy homes and this market is particularly strong at present, Golding tells *Finweek*.

BENEFITS:

- **Flexibility & mobility:** "It's easier to extricate oneself from a lease and relocate rather than having to sell before one can relocate. The rental option is ideal for contract workers relocating nationally or internationally," says Dr Golding.
- **Testing the waters:** Renting is ideal for testing an area and type of property.
- **Fixed costs:** Cash flow is more stable as unexpected maintenance costs are paid by the landlord.
- **Saving to buy:** "You don't have to rent the house you aspire to; you can rent smaller and cheaper and tough it out as long as you need to in order to save for a deposit for your own home," says Loos.
- **Aspirational:** If living in your dream home in your preferred location is not achievable within your buying budget, it could be within reach through renting.

DISADVANTAGES:

- You're paying off someone else's bond rather than your own and will have nothing to show for all that money spent.
- "Having to move each time the landlord decides to sell can be unsettling," says Loos.
- It's not your property so you may have to live with aspects that you would typically change if it were yours.

"Some may say that renting is a better option because you save on transfer costs as well as benefit from cheaper renting costs which you can then save. This may be correct theoretically but in practice, South Africans don't save. If they do rent, often they are blowing the rest," says Loos. ■

BUYING OR SELLING WITHOUT AN ESTATE AGENT? GO TO FINWEEK.COM TO FIND OUT MORE!

BUY-TO-LET INVESTMENTS: WHAT YOU SHOULD KNOW

As the economy bites, a greater percentage of people are unable to buy properties, and opportunities arise for the buy-to-let investor. "It's an excellent time to be a landlord in the buy-to-let market," says Dr Andrew Golding, CEO of the Pam Golding Property group. "The market is very active and characterised by a shortage of rental stock and an oversupply of would-be tenants, the consequence of which is a trend of increasing rental yields and a market that is experiencing above inflation annual capital growth."

Property markets are cyclical, so investors must consider buying a property that will rent well in any market, cautions Golding.

"Provided you do your homework and pay no more than fair market value, perhaps a premium price only in exceptional areas, you are unlikely to go wrong by investing in property in South Africa," says Seeff chairman, Samuel Seeff.

Property in SA has the "propensity to deliver excellent, inflation and even other investment beating returns", he says.

Even SA's listed property funds have their eye on residential property.

"Clearly residential property is once again coming to be recognised as a viable and highly rentable commodity by SA's listed property roleplayers," says Ken Reynolds: Gauteng regional executive: Nedbank Property Finance.

But private property investors should learn from the listed funds' prior reluctance to incorporate residential property into their portfolios.

"You need the management machine to handle that type [residential] of asset class," says Andrew Konig, CEO of Redefine Properties, SA's second-largest real estate investment trust.



Andrew Konig
CEO of Redefine Properties

MANAGING A BUY-TO-LET PROPERTY

"A buy-to-let property is not a passive investment. You need to think of it as a business," cautions John Loos, household and property sector strategist at FNB Home Loans. "You have a tenant who has to be managed. You need to know your legal rights and obligations, and have a lawyer on standby."

Investors ill-equipped or unwilling to be in the business of managing a property and tenant, could consider handing this over, for a cost, to a property management company.

Placement costs to secure a tenant only would typically cost the equivalent of one month's basic rental, says Andrew Schaefer, MD of Trafalgar Property Group. Full management including monthly billing, collections, maintenance and administration, incurs a fee of 8% to 10% of the monthly collections.

Typically, cash flow in the first few years is strained for a residential investment property, says Schaefer. Rental increases have already compressed from the standard 10% to 8% and even 7% in the last year or so, Schaefer tells *Finweek*, as tenant affordability and disposable income is put under pressure due to increased utility charges.

RISK VS RETURN

Loos explains that while high-end rentals don't offer good yields, tenant profile risks could increase at the more affordable end. "Everything has its trade-offs," says Loos. "On average, the good tenant [those in good standing] is somewhere in the middle where rentals are around R3 000 to R12 000."

The student market has become extremely overtraded, competitive, as well as challenging in terms of management and rule enforcement, Schaefer tells *Finweek*.

General sentiment is that properties in close proximity to major business nodes and public transport are attractive buy-to-let investments and are likely to hold their values better than those further afield.

The Cape Town City Bowl, for example, is highly sought-after because the Cape Town traffic is chronic, says Loos. The same is true in Sandton.

Seeff warns that it takes about five years before the monthly rental payment starts yielding good returns. "For those looking for good returns and for this to kick off almost immediately, a property fund may be a better investment vehicle." ■

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BUY-TO-LET **TIPS**

Andrew Schaefer, MD of Trafalgar Property Group, has these tips for potential buy-to-let investors:

1. Do the financial feasibility: Clearly understand all your costs, your income and allow a contingency in the event of a vacancy or maintenance event.
2. Buy close to where you live: This reduces the risk of being far away from a property that might experience maintenance or tenant issues.
3. Type of property: Two-bedroomed properties are more popular with tenants.
4. Buy a property that is well constructed: This will allow for a cost-effective maintenance profile and eliminate the need for ongoing maintenance costs.
5. Beware of rental bubbles: Take a long-term outlook and be aware of demand dynamics. That means caution in areas where changing cycles – such as those associated with a particular mining or commodity project – may mean that rental demand abates at the end of that project.
6. Recover your service costs: Ensure that your services are measurable and recoverable. 100% of your water and electricity costs should be recovered, otherwise this will affect your bottom line.

Sibanye goes for more than gold

BY DAVID MCKAY

The proposed R4.5bn takeover of Anglo American Platinum's (Amplats's) Rustenburg mines by Sibanye Gold means that the gold producer is actually transforming into a multicommodity mining house.

In addition to the 800 000 ounces of platinum group metals (PGMs) that come with Rustenburg, Sibanye Gold is also considering the pros and cons of buying its own coal in order to satisfy its energy requirements.

Add that to the uranium by-product from its 1.2m ounces a year of gold production and you'll quickly see why it has fallen far from the Gold Fields tree, from which it was unbundled in 2012.

Neal Froneman, CEO of Sibanye Gold, explained to *Finweek* that the intention was always to diversify but not in order to create a mining house of old. "It was not a strategy to diversify by commodity, but about becoming a sustainable benchmark dividend payer. What we are doing is taking the shackles off gold."



Neal Froneman
CEO of Sibanye Gold

That's an implicit admission that the gold business cannot, on its own, comfortably drive the R1bn-a-year dividend prediction to 2028 it made in August last year. Already, there are doubts that a dividend of that size will be paid in the current financial year.

Froneman said there had to be consolidation in the platinum sector, as there has to be similar activity in the gold industry, but it's not clear how Sibanye will embark upon this.

It didn't opt for Amplats's Union section, which was also for sale, as the company wanted to make a bite-size acquisition before moving on to other targets. Yet Froneman seemed a bit sniffy with the suggestion of a Lonmin takeover.

"Something like Lonmin is cheap at the moment, but it's like considering a bid for Harmony," he said. "These companies are losing a lot of money and buying them doesn't work without synergies. They need a lot of capital, they have got heavy debt and then you'd probably have to pay a premium for control of the companies."

Yet platinum consolidation does seem to be the plan.

"As much as we believe there is consolidation necessary in the gold sector, it really is a view based on enhancements from rationalising infrastructure and we have a similar view on platinum," he said in a media call following announcement of the Rustenburg bid. "We did not anticipate Rustenburg being only one step.

"I wouldn't like to create the impression that there will be [many] more steps, but we are certainly open-minded regarding further consolidation in efficiency enhancement," he said.

THE 2020 GOLD PEAK

It's hard to find a company on the JSE that busies itself solely with the task of discovering gold; Goliath Gold is one, but there aren't many others – a trend that is mirrored throughout the world. The reasons for this are obvious – the slump in the gold price since 2013 – but the implications are surprising, according to a report by Standard Bank Group Securities analyst, Adrian Hammond. He calculates that gold exploration spend will decline to about R4bn this year from some R10bn in 2010.

Perhaps more alarmingly, the success rate in finding new sources of gold has slumped spectacularly – from 200m ounces in 2005 to 10m ounces in 2010.

This means gold miners' ability to maintain production will be compromised, since levels of output have to be underpinned by a certain amount of available reserves and resources.

Standard Bank estimates that for every million ounces of steady-state production, some 23m ounces of reserves and 46m ounces of resources are required – the latter roughly defined as gold, which producers have less economic certainty about. Since 2012, the reserves of the top 15 gold mining companies have declined by about a fifth.

This number-crunching suggests the world's gold industry will reach a state of 'peak gold' by 2020, a milestone moment that marks the decline in global annual gold production. Presumably, this will be when gold prices start to rise and, usually before that, the equities that are involved in producing it.

"We believe gold production could peak within the next five years if gold prices do not increase materially," said Hammond.

"At spot gold prices, we think that 2020 could be the year for peak gold production, or what could be the 'fifth production cycle' dating back to the last 120 years," he said. ■

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Is **SA** the next **Brazil**?

BY CIARAN RYAN AND JANA MARAIS



President Jacob Zuma and Brazilian President Dilma Rousseff at the joint Brics/ SCO (Shanghai Cooperation Organisation) summits on 10 July in Ufa, Russia.

Gallo Getty Images/Host Photo Agency

The carnival appears to be over in Brazil as the South American economy is experiencing its worst slowdown in three decades. This was followed by Standard & Poor's (S&P) downgrading Brazil's debt to junk status earlier this month, raising questions whether its struggling emerging market peers South Africa, Russia and Turkey may be next.

Carmen Altenkirch, director at Fitch Ratings, warned at a conference in London on 8 September that the risk of a downgrade to SA's sovereign rating to junk was increasing.

Fitch put the country on a negative outlook in December 2014, and news flow since then has been negative, Reuters reported Altenkirch as saying.

Altenkirch is not alone in her views. Brown Brothers Harriman (BBH), the oldest and largest private bank in the US, warned in July already that it expects SA to be downgraded further, based on first-quarter data, "and would not be surprised if SA slipped into junk territory". BBH runs its own models, taking into account macro-economic and political indicators, to produce its own rating model and predict changes in ratings by Moody's, S&P and Fitch. Russia and Turkey are the other most likely developing markets to move to junk status, it said.

Moody's, however, took a different view, affirming SA's Baa2 investment grade rating and stable outlook earlier this month. It cited government's current fiscal prudence, its ability to collect taxes, its adherence to the expenditure ceiling and its macro-institutional strength (related to the Treasury and the South African Reserve Bank) as factors in favour of maintaining the rating.

While the ratings agency warned that the economy will be constrained over the next 18 months due to low commodity

prices, electricity shortages, a drought and weaker than expected global growth, it expects SA to avoid recession this year and for the economy to grow 1.7% in 2015 and 1.9% in 2016.

Rating agencies take a number of factors into account when determining creditworthiness, such as external debt/GDP, import cover, GDP growth and current account/GDP. Credit ratings are used to measure the risk of a default on the repayment of loans, and have a direct impact on the cost at which countries or companies can access finance. Country downgrades can also trigger company downgrades – Brazil's three downgrades in the past 18 months have triggered about 186 ratings cuts for Brazilian companies, excluding financial services companies, according to Bloomberg data.

SA'S PUBLIC DEBT TO GDP RATIO HAS DOUBLED IN SEVEN YEARS TO 44%, BUT IS STILL WELL BELOW THAT OF BRAZIL.

Junk ratings can also lead to major outflow of investment, as many major investors such as pension funds are not allowed to invest in sub-investment grade bonds.

A downgrade can have serious repercussions for investors and countries alike. Brazil's stock market, which lost around $600bn (R8tr) in value over the past year according to Bloomberg, for example dropped 2.3% on the S&P announcement, while its currency fell 1.8% against the US dollar. Moody's and Fitch maintain investment-grade ratings on Brazil's sovereign debt.

There are many parallels between SA and Brazil: both are dependent on commodity exports, which have been hit hard by falling Chinese demand; both currencies are among the world's weakest performers in the world this year; both have major social spending commitments that are at risk when the economy slows; both are gripped by corruption scandals and ruled by a political class that seems clueless as to what to do next.

Brazil's government debt to GDP ratio has soared to 58% in recent years, well above that of other Brics partners China (13%) and Russia (22%), according to an analysis by Market Realist. SA's public debt to GDP ratio has doubled in seven years to 44%, but is still well below that of Brazil.

The Brazilian real has lost 60% of its value against the US dollar since 2011 and, along with the rand, hit record lows against the dollar in September. The official inflation rate in Brazil is nearing 10%.

Brazil's central bank rate has been hiked seven times in recent months to 14.25% to put a lid on inflation. Businesses are paying up to 2.5% per month on borrowings, which is about 30% a year. Higher interest rates have done little to stem the flight out of the Brazilian currency or curtail inflation. The only remedy left is austerity, a word that is political suicide in a country nurtured on years of low interest rates, easy money and welfare spending.

The S&P downgrade finally jolted the government of the deeply unpopular president, Dilma Rousseff, into action. Brazil announced a $17bn (R227bn) austerity package on 15 September in an attempt to improve its fiscal position. The cuts include eliminating 10 of 39 ministries, freezing public sector salary increases and hiring, and cutting housing and health-related social spending. ■

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BRAZIL'S WINNERS & LOSERS



Fabio Fernandes
Chief purchasing officer of Luxcel

THERE IS LITTLE sign of economic stagnation in São Paulo, a city of some 25m people and economic heartland of the sub-continent. The shopping malls and restaurants are packed, and business owners such as Anildo Silva, who owns several restaurants in the south of Brazil, say the country is in much better shape than when it entered an economic downturn more than a decade ago. It has survived previous slumps, and many believe this one will be no different.

Brazil's fashion industry expects to benefit from the weaker real. Tacio Rodriguez, head of sales for Sociale, which produces the Zioni range of men's clothing, says the company has until now been focusing on the booming Brazilian market, but exports have suddenly become more alluring as the currency weakens against the US dollar.

Fabio Fernandes, chief purchasing officer of Luxcel, an importer of travel goods with a chain of retail outlets, says his business grew 5% in 2014, but companies with substantial debts have started to reconsider plans for expansion. "Lots of businesses have to rein in plans for expansion for the moment. So while we had pretty good sales last year, we also have higher costs in terms of salaries, rentals and tax. Our high-end consumer goods sales are weaker, but lower-end goods are doing well. Overall, margins are lower."

Tourism is another sector expected to do well while the real remains weak. More than 6.4m people are expected to visit Brazil this year, according to the World Travel & Tourism Council, but the figure is likely to swell to 14.2m by 2024, making this one of the fastest growing tourism destinations in the world over the next decade. Brazil's tourism infrastructure is world class, and is geared to virtually any budget. Prices for hotels and car hire are not dissimilar to that of SA.

Many entrepreneurs are unafraid of the economic turbulence ahead. "There are always good opportunities in a crisis," says São Paulo entrepreneur Victor Salinas. "Obviously those with heavy debts will want to rein them in as fast as possible, but those with cash are able to negotiate some excellent deals. This is why I am optimistic about Brazil."

Eskom rethinks coal supply model, spurns Exxaro

BY DAVID MCKAY

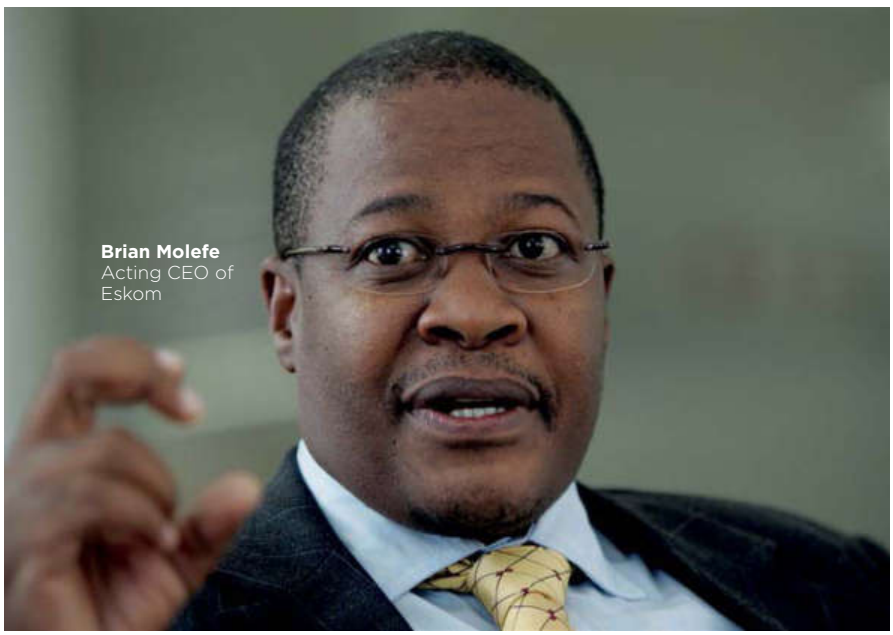
It will be easier said than done for Eskom to move its coal suppliers from cost plus contracts to more commercial terms. That's the implication of comments made recently by Exxaro Resources.

The firm believes that negotiations with Eskom will be relatively complex and time-consuming and could involve having to commission a full bankable feasibility study for each operation where a fixed-cost arrangement is in place.

Fixed-cost supply of coal was a way of financing new coal builds at a time when South Africa and Eskom were in a very different place. Back then, in the 1980s, Eskom was cash-rich and coal supplies were shallower and cheaper to access.

The arrangement was for Eskom to pay for the capital cost of building the mine, usually near its planned power stations, and lock in a coal price from the mining company that was several percentage points above the cost of production.

Brian Dames, the former CEO of Eskom, complained from time to time that this arrangement was being abused by coal producers. He believed that owing to the fact the margin was fixed, mining companies appointed their less capable mine managers to such operations.



Brian Molefe
Acting CEO of Eskom

Image/James Oatway

TAKE-OR-PAY AGREEMENTS OBLIGE **ESKOM** TO PAY A PENALTY IF IT CAN'T ACCEPT EXXARO'S COAL.

Acting CEO, Brian Molefe, however, has taken the matter further, saying that he will move away completely from the cost plus model and buy coal from whoever can supply it the cheapest.

Said Molefe in June: "If I were to be there [at Eskom] beyond the middle of July, I would say we must have a tender for the supply of coal of a certain grade to an Eskom power station.

"It might not be from the mine next door, but from whoever can supply coal of a certain grade to Eskom. If the mine next door is 5c more expensive, and the mine 200km away can deliver it 5c cheaper, and it is the right grade, we must buy it from there," he said.

Meanwhile, there's some concern that Exxaro's coal supply to Medupi, Eskom's 4 800MW Limpopo province power station project, may be further interrupted.

This is based on the comments of HSBC analyst, Derren Maade, who observed in a recent note that Eskom has provided some R8bn for penalties in terms of take-or-pay agreements whereas Exxaro has only booked R3bn. Take-or-pay agreements oblige Eskom to pay a penalty if it can't accept Exxaro's coal; in this case because Exxaro has built its Grootegeluk coal expansion on time, but Medupi's units were not being commissioned. This meant Exxaro had to delay revenue even though it had spent capital on Grootegeluk, hence the compensation of the take-or-pay agreement.

Mzila Methanjane, head of strategy for Exxaro, said there had been questions about the apparent anomaly in figures between his company and Eskom. "We can't really comment on it because we don't know what provision Eskom is making."

Said Maade: "We believe this represents upside to the current contract and may signal further expected delays to Medupi's ramp-up."

Eskom had not commented at the time of going to press. ■

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Spur stakes UK division on **new-format restaurant**

BY JACO VISSER

Spur Corporation's steak-ranch venture into the UK hit the company's sales and profit this year, prompting it to rethink its model in the UK and the roll-out of smaller-sized on-the-go franchises in South Africa.

The Cape Town-based company, which owns brands including Spur Steak Ranches, Panarottis Pizza Pasta, John Dory's and Captain DoRegos, saw revenue grow by 3.7% to R760m, while after-tax profit slumped by 1.2% to R135.6m in the year to end June. Revenue at the UK division contracted by 6.3% to R147m and its loss before tax widened to R4.7m from R2.2m.

"In the UK, our current model has passed its sell-by date," says Pierre van Tonder, CEO of Spur Corp. "Hence we launched the new model of the smaller Spur." The company will continue to sell its current leases in the UK, with Aberdeen sold for £425 000 (R8.9m) and Lakeside for £450 000 (R9.4m), he said. If the new model, called Ribs, Burgers and Wings, is successful, the company's board has given the go-ahead to expand it internationally, Van Tonder said. If unsuccessful, he would "come home". The new model will also find its way to SA, according to Van Tonder. Plans to roll out the smaller-sized on-the-go format locally are progressing well, with two outlets planned for Worcester and one for Piketberg, both in the Western Cape, he adds.

> "IN THE UK, OUR CURRENT MODEL HAS PASSED ITS SELL-BY DATE. HENCE WE LAUNCHED THE **NEW MODEL** OF THE SMALLER SPUR."



Pierre van Tonder CEO of Spur Corp.

"We call it 'Grill and Go' in SA," he says. "[It] is specifically designed for what I call transient sites. [This] model of 150m² to 200m² is being rolled out with [certain] petroleum companies."

These outlets won't be opened in traditional Spur territories, explains Van Tonder. They would rather be focused on highways and similar sites, he says, with a focus on smaller towns.

"You can't spend R6m on a site in Kriel and expect to make a return," he says. "When you build a smaller Spur with a smaller menu and spend R2.5m, a franchisee can make a return."

SA's economic woes, with the effects of power outages, a slump in metal prices and layoffs in the mining sector, have hit one of Spur's brands. Revenue from Captain DoRegos has slumped by almost 26% to R6m in the year ended 30 June from R8.1m in the previous financial year. It turned a pre-tax profit of R2.1m in 2014 into a pre-tax loss of R11.8m, which includes an impairment charge of R13.9m to the brand name.

"Captain DoRegos trades in the worst segment of the market where people are really poor," Van Tonder says. "It's a very tight market. Those are the people who got the hardest hit [economically]."

The top end of SA consumers was not as hard hit as the middle segment, Van Tonder adds. The company was successful in its promotion campaigns, including Spur's Family Card loyalty programme targeting this market, according to him. ■

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Sasfin's entrepreneurial focus lures bigger business

BY JACO VISSER

The Sassoon family has been in financing since the 1950s, and over the past few decades the family focused its Sasfin bank on the needs of small and medium businesses. CEO Roland Sassoon spoke to *Finweek* about the bank's recent results and future plans.

Sasfin Holdings Ltd has entrenched itself as a primary bank, mainly for its existing small- and medium-sized business clients, by becoming a transactional banker and buying an equipment funder, Fintech.

CEO Roland Sassoon is also steering the company's move into asset management and looking for opportunities abroad. Increasing its funds under management, Sasfin's wealth division has been attracting high-net-worth individuals at a steady pace over the past reporting period, boosted by worries about the local economy and a devaluating currency.

The company, started by Sassoon's father in the 1950s and listed on the JSE in the late 1980s, isn't oblivious to the economic problems facing South Africa.

"We're very concerned about this economy," Sassoon says. "I think we're on the brink of recession. There is already a hint of a downrating. If there is a downrating, South Africa will go into recession."

At the beginning of September, Fitch, the credit rating company, warned that the risks for a downgrade of SA's sovereign credit was increasing. Fitch kept SA's rating at BBB, still investment quality, with a negative outlook in June.

The rand's rapid devaluation against major world currencies over the past few months has prompted many local investors to shift their wealth into offshore assets.

Sassoon doesn't believe that commodity prices would move upwards in the next couple of years. SA relies on the export of mineral resources for about half its foreign-exchange earnings.

"We are now looking to see what we can do to do things in other geographic areas," Sassoon says.

"We're working on that at the moment. It's quite difficult for a bank to lend money to a client who is in a different geography. We've got a few ideas to do that."

Sasfin's wealth division, which started in the 1990s by acquiring brokerage firm Frankel Pollak, has increased its focus on managing wealth rather than being solely a brokerage. The division was started in a bid to attract depositors as Sasfin lends money



Roland Sassoon
CEO of Sasfin

GETTING TO KNOW **ROLAND SASSOON**

What is the last book you read?
I'm reading a book about Stephen Schwarzman and Blackstone called *The King of Capital* by David Carey and John E Morris. Private equity is a very fascinating subject. We're doing a bit of private equity. I do most of my book reading at the end of the year. I do a lot of newspaper and internet reading during the year.

Where is your favourite vacation spot?
We've got a family home in Wilderness outside George. We like it there.

What is your favourite pastime?
My favourite pastime is being with my grandchildren.

to small and medium businesses. "There is a big demand to externalise your money with the exchange rate crashing like this," Sassoon says.

The company increased its assets under management by 29% to R117bn by the end of June as it expanded its offshore and local investment offerings, including the launch of a fixed-income fund.

"This is a very lucrative area," Sassoon says. "We receive annuity income, which is much healthier than deal and advice fees." He admits that the asset management unit is still small when compared with Coronation and Allan Gray, but many new clients "like the personal touch" they receive at Sasfin.

"WE LIVE CLOSE TO OUR CUSTOMERS. IT IS EXPENSIVE TO SERVICE THAT MARKET WELL AND WE CAN SERVICE THEM BETTER THAN THE TRADITIONAL BANKS."

"We think there is still huge potential for that business to grow," Sassoon says. "People don't like to put their money with an unknown company. We need to get our name out there."

One of the ways that Sasfin will be boosting its asset management unit is to move into new premises in Melrose Arch, Johannesburg, close to its head office.

In addition to expanding the asset management unit, the company launched its transactional banking offering during January focusing on its existing borrowers.

It was a "defensive" mechanism to protect its client base, he says. Sasfin doesn't want to be a retail bank, according to him. "Our whole business is targeting the wealth market, or investors, and the entrepreneurs," Sassoon says. "If you think about it, the economy of this country rests on those pillars: investors and businesses. Without those, you won't have an economy."

Sasfin's aim is to focus on those two segments and build on them. Venturing into transactional banking opened doors for the company to access this market better, he believes.

The company's traditional focus on small and medium businesses has brought it a loyal client base, according to Sassoon. Many of them used a primary banker, such as the large four banks, with Sasfin acting as a secondary bank, he says.

Focusing on smaller and medium businesses isn't cheap and many larger banks shy away from servicing this sector, Sassoon said. It requires more skilled people who are in close contact with clients, according to him.

"We live close to our customers," he says. "It is expensive to service that market well and we can service them better than the traditional banks."

As larger banks tend to see the entrepreneurial market as riskier than the traditional large businesses, Sasfin took the gap years ago by offering smaller and medium businesses funding for debtors, stock and equipment.

The company bought Fintech, an equipment funder, during the financial year ending in June for a total consideration of R187.7m. Through this acquisition, which became effective on 30 June, Sasfin would potentially boost its after-tax profit by R32m and increase its loan book by R852m, according to its latest financial statements. ■

editorial@finweek.co.za



Sasfin's head office in Waverley, Johannesburg

SA vehicle industry riding on exports

BY MARCIA KLEIN

With vehicle exports soaring, it appears the effects of government's Automotive Production and Development Programme seem to be making an impact. And despite local vehicle sales figures remaining depressed, manufacturers continue to invest in production capacity at their South African plants.

Local vehicle sales figures, which are yet to reach levels achieved a decade ago, tell the story of an industry under immense pressure. But buoyant export figures and recent investments by auto manufacturers tell a different story: despite a plethora of headwinds, the vehicle manufacturing industry has remained resilient.

This is due, at least in part, to the Automotive Production and Development Programme (APDP), introduced in January 2013, to replace the Motor Industry Development Plan, implemented in 1995. It has helped South Africa's auto manufacturers retain and grow their minor, but fairly competitive, place in a global industry.

SA-BASED MANUFACTURERS

While many big companies are holding off on investment in SA's problematic economy, Volkswagen Group South Africa (VWSA) last month announced plans to invest over R4.5bn to produce new models at its Uitenhage factory in the Eastern Cape by 2017.

This investment includes over R3bn in production, R1.5bn in local supplier capacity and R22m for training and developing employees. Managing director Thomas Schafer said at the time of the announcement that SA, with only 0.6% of global vehicle production, is "not a logical production location" for the industry, but VWSA's investment reflected the potential of Africa as a future market for exports and the security the APDP provides for investors. Export volumes of VW's Polo range were expected to increase 21% in 2015.

Matt Gennrich, general manager group communication at VWSA, said the company has "taken a leap of faith in South Africa and the potential future of Africa", and is ensuring it maintains or improves its market share and positions itself for possible expansion into sub-Saharan Africa.

As *Finweek* was going to print, Goodyear also announced a R670m investment in its Uitenhage plant to increase production of high-value-added consumer tyres.

While South African exports to other African countries have been under pressure, there are signs that motor companies continue to have faith in the continent.

Last month Ford announced that it will assemble the Ford Ranger bakkie in Nigeria from the last quarter of this year. Its investment in Nigeria, the first African country outside SA to produce Ford vehicles, is part of the company's Middle East and Africa growth plan. Ford South Africa, which produces the Ranger for 148 markets, will export kits for assembly to the Nigerian plant, which will have production capacity of 5 000 units a year. Ford also announced that it would start producing a new generation Duratorq TDCi engine for the new Ford Ranger at its Port Elizabeth plant.

Last year Toyota South Africa started local volume production of the new 11th generation Toyota Corolla at



The Ford Ranger Wildtrak, which will be launching in SA in the coming months.

WHAT VEHICLES ARE ON SA'S ROADS?

THERE ARE 10.36M VEHICLES IN THE COUNTRY. THESE INCLUDE:

- 7m cars
- 290 000 taxis
- 60 500 buses
- 2.4m medium trucks
- 370 000 heavy trucks
- 234 000 other vehicles

SOURCE: Naamsa

its Prospecton manufacturing facility following an investment of over R1bn in production capabilities. In July Toyota launched its R476m Quantum Ses'fikile Complete Knock Down (CKD) plant. At the time, minister of trade and industry Rob Davies said investments by the vehicle and components manufacturing industry had totalled R24.5bn since the launch of the APDP.

In a mid-year presentation by the department of trade and industry (dti) to the economic development parliamentary portfolio committee, it said auto exports worth R115.7bn in 2014 represented 12.7% of total exports.

Government had paid out R4.1bn since the start of the APDP, including R1.2bn in 2014/15 and recorded a "theoretical duty loss" of R7.1bn in 2013. It did not provide a 2014 total.

SALES DROP, EXPORTS SOAR

Despite these new investment commitments, there is no doubt it is tough for the motor industry right now. The latest figures show that new vehicle sales dropped 8.2% year-on-year in August to 51 055 units, with passenger and light commercial vehicles both losing 7.8%. Domestic sales have been poor, but exports of 28 069 units in August were 12.3% up year-on-year, and on track for a 20% growth this year to a record of around 330 000 – at a perfect time to make full use of a weakening rand.

The industry's lacklustre performance is not a recent phenomenon. Industry production, which is still failing to match 2008 levels, rose just 3.7% or by 20 417 units in 2014 although forecasts look better.

SA is also not alone. A recent report by PwC said 2015 will be "a modest year" for the global automotive industry. Light vehicle assembly is expected to increase 2.7% to 88.6m units in 2015. Between now and 2021, PwC forecasts a 3.7% compound annual growth in production, with the lion's share of new assembly volume coming from developing markets, particularly in the Asia-Pacific region.

PwC said SA's vehicle and component manufacturing industry accounted for 30.2% of the country's total manufacturing output and 7.2% of GDP in 2014. SA exported cars and components worth R115.7bn to 148 countries in 2014.



Ford Ranger Wildtrak interior

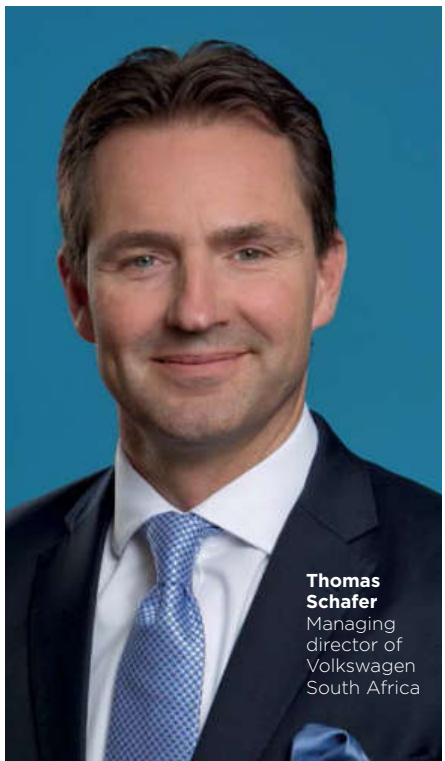
The Automotive Production and Development Programme IN A NUTSHELL

TARIFFS
Import tariffs are pegged at 2012 levels – 25% for completely built-up vehicles, and 20% for components used by vehicle manufacturers.

LOCAL ASSEMBLY ALLOWANCE
Duty free import credits based on 20% (reducing to 18%) of the ex-factory vehicle price.

PRODUCTION INCENTIVE
The production incentive is at 55% (reducing to 50%) of value added (selling price less the value of non-qualifying material/ components).

INVESTMENT ALLOWANCE
A grant for new investment of 20% of the project value over three years.



Thomas Schafer Managing director of Volkswagen South Africa

Despite low domestic sales figures, there has been a significant increase in capital expenditure which had slumped from over R6bn in 2006 to R3bn the following year. It picked up to R3.9bn in 2011, R4.6bn in 2012, R4.4bn in 2013 and a record R6.9bn in 2014, with another record R7.5bn projected for this year.

While production and sales figures have been sluggish, exports continue to grow strongly, indicating local manufacturers' ability to produce to globally competitive standards. National Association of Automobile Manufacturers of South Africa (Naamsa) figures show that exports continue to grow strongly to Europe, Australasia, South America and Asia while exports to North America have shown modest growth. Exports to the rest of Africa, however, dropped 18% in the first half of this year, reflecting the effect of regulatory changes in Algeria and import duty and levy increases in Nigeria.

The long-term growth in exports has been remarkable. A decade ago, local sales of passenger cars were double those of exports. In 2008, the number of export units overtook local sales units for the first time and exports have grown since then to the extent that in 2015, Naamsa has forecast local sales of passenger vehicles of 115 000 and export sales of 205 000.

THE APDP FUELS GROWTH

Growth in exports, and expectations of record production and capital expenditure this year, are in no small part due to the APDP, which has been criticised by some components manufacturers. Naamsa said

the APDP, which got the "full buy-in" of the industry, has been a big success.

Naamsa said the APDP has resulted in:

- Over R24bn capital investment by the seven major vehicle producers over the past five years.
- Capex of R7.5bn projected by OEMs (original equipment manufacturers) for 2015, up from R6.92bn in 2014.
- Significantly higher volumes per model produced, economies of scale benefits and reduced simplicity for suppliers following model rationalisation from 42 platforms 20 years ago to 12 today.
- An increase in employment in the vehicle and component manufacturing sectors of 1 200 to over 31 000 jobs over the past 15 months.
- Record production of 630 000 units expected in 2015.
- A reduction in the industry's trade deficit following strong export growth.
- An increase of over R5bn or 12.3% to R47bn of total APDP value addition in the first two years of the programme.

Naamsa director Nico Vermeulen said the APDP "has been extremely successful, and there has been an increase in vehicle production and exports as a result". He said components manufacture has been a tough industry globally, focused on relentless cost reductions, so components manufacturers may not feel they have benefitted from the APDP.

The APDP has worked well because government's incentives have been more than paid back. "What the industry has done for the economy and the balance of payments far exceeds anything the government supplies in terms of support," he explains.

Gennrich said the APDP has given VWSA a clear legislative programme "within which we can plan and operate our business in South Africa".

Some things are more difficult to plan for. South African manufacturers are contending with a plethora of issues including high electricity prices and high wage increases, currency volatility and depreciation, a lack of political leadership and political uncertainty, low consumer spending on big-ticket items and a poor economy.

Sales trends reflect some of the challenges. The entry-level segment is showing some growth, as are SUVs, but the rest of the market is under pressure and commercial vehicle sales reflect the economic downturn.

VWSA expects the market to shrink by 4% this year, but some export markets, like the UK and Japan, have been able to absorb the deficit in local production as their market shows growth.

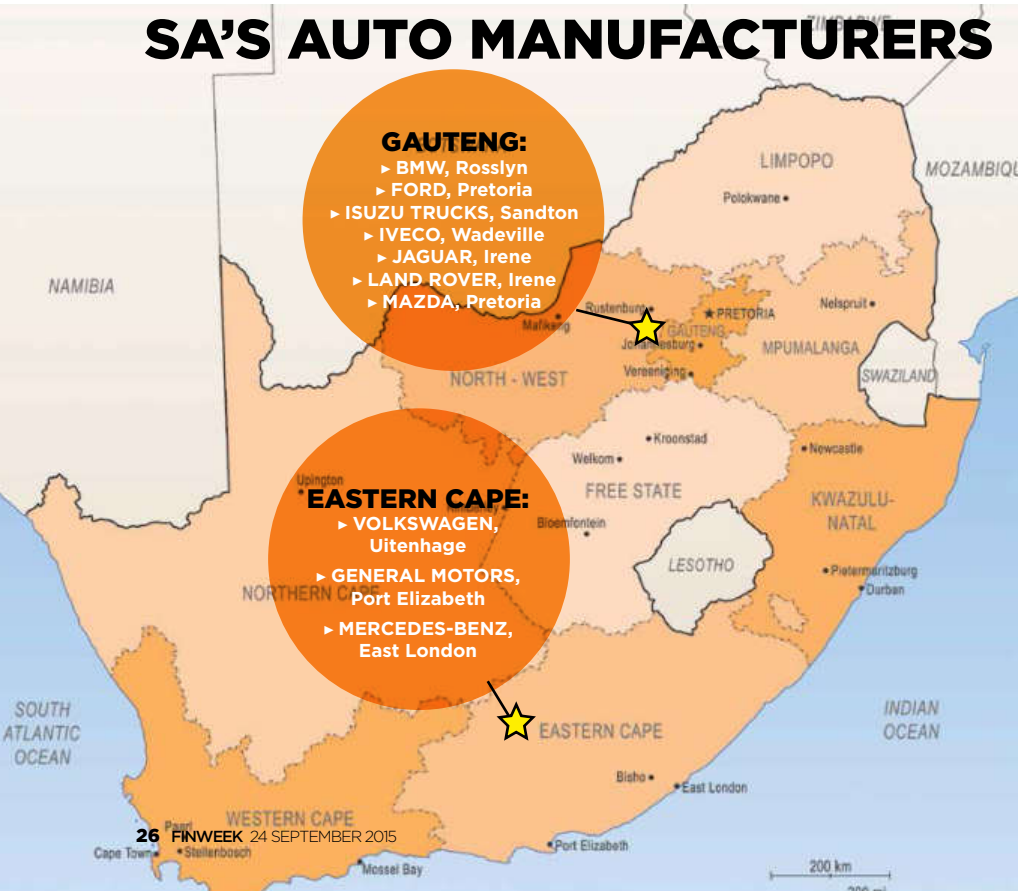
Gennrich says the Uitenhage factory has not had load-shedding, so production has not been affected. The rand's devaluation will affect the company, but as an exporter, "there is a degree of natural hedging in place".

He added that SA was not a cheap country in terms of labour and there were challenges on wage increases that need to be understood by everyone involved.

The struggling steel industry has had little effect as local suppliers don't make the grade of steel the company uses for vehicle production. ■

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	2000	2005	2010	2011	2012	2013	2014	2015 (p)	2016 (p)
Cars									
Total domestic production	230 577	324 875	295 394	312 265	272 076	265 140	277 491	320 000	340 000
Exports	58 204	113 899	181 654	187 529	151 659	151 893	154 920	205 000	220 000
Imports	61 749	208 892	223 390	271 556	322 187	337 049	316 693	310 000	320 000
Total local car market	23 4122	419 868	337 130	396 292	442 604	450 296	439 264	425 000	440 000
Light commercial vehicles (LCV)									
Total domestic production	113 269	172 522	153 773	192 829	245 081	248 396	255 629	258 000	280 000
Exports	9 148	25 589	56 950	84 125	123 443	121 345	118 585	120 000	135 000
Imports	4 114	23 199	36 911	40 597	38 536	40 945	36 645	33 000	35 000
Total LCV market	108 235	170 132	133 756	149 301	160 174	167 996	173 689	171 000	180 000



AABLA

ALL AFRICA BUSINESS LEADERS AWARDS

IN PARTNERSHIP WITH CNBC AFRICA

SOUTHERN AFRICA FINALISTS

In the past decade, Africa has seen a rise in business and leaders across all regions, who are pioneers in their respective fields. We are proud to introduce the 2015 finalists of the All Africa Business Leaders Awards in Partnership with CNBC Africa.

YOUNG BUSINESS LEADER OF THE YEAR – SOUTHERN AFRICA



Ashley Uys



Sylvester Chauke



John Nicolakakis

ENTREPRENEUR OF THE YEAR – SOUTHERN AFRICA



Samuel Seeff



Braam van Huyssteen



Jason Xenopoulos



John Nicolakakis

BUSINESS LEADER OF THE YEAR – SOUTHERN AFRICA



Edward Kieswetter



Dr Johan van Zyl



Sisa Ngebulana

BUSINESS WOMAN OF THE YEAR – SOUTHERN AFRICA



Jeanne Groenewald



Natasha Sideris



Louisa Mojela & Gloria Serobe

PHILANTHROPIST OF THE YEAR – SOUTHERN AFRICA



Solly Noor



Wendy Ackerman



Wendy Appelbaum

Industrialist of the Year Category: Southern & Finals Presented By

IDC
Industrial Development Corporation

Entrepreneur of the Year Category Presented By

Sea Harvest
Savour the sea

Finals Host Sponsor
Bakgatla Ba Kgafela

Business Leader of the Year Category Presented By

BOSCH
Invented for life

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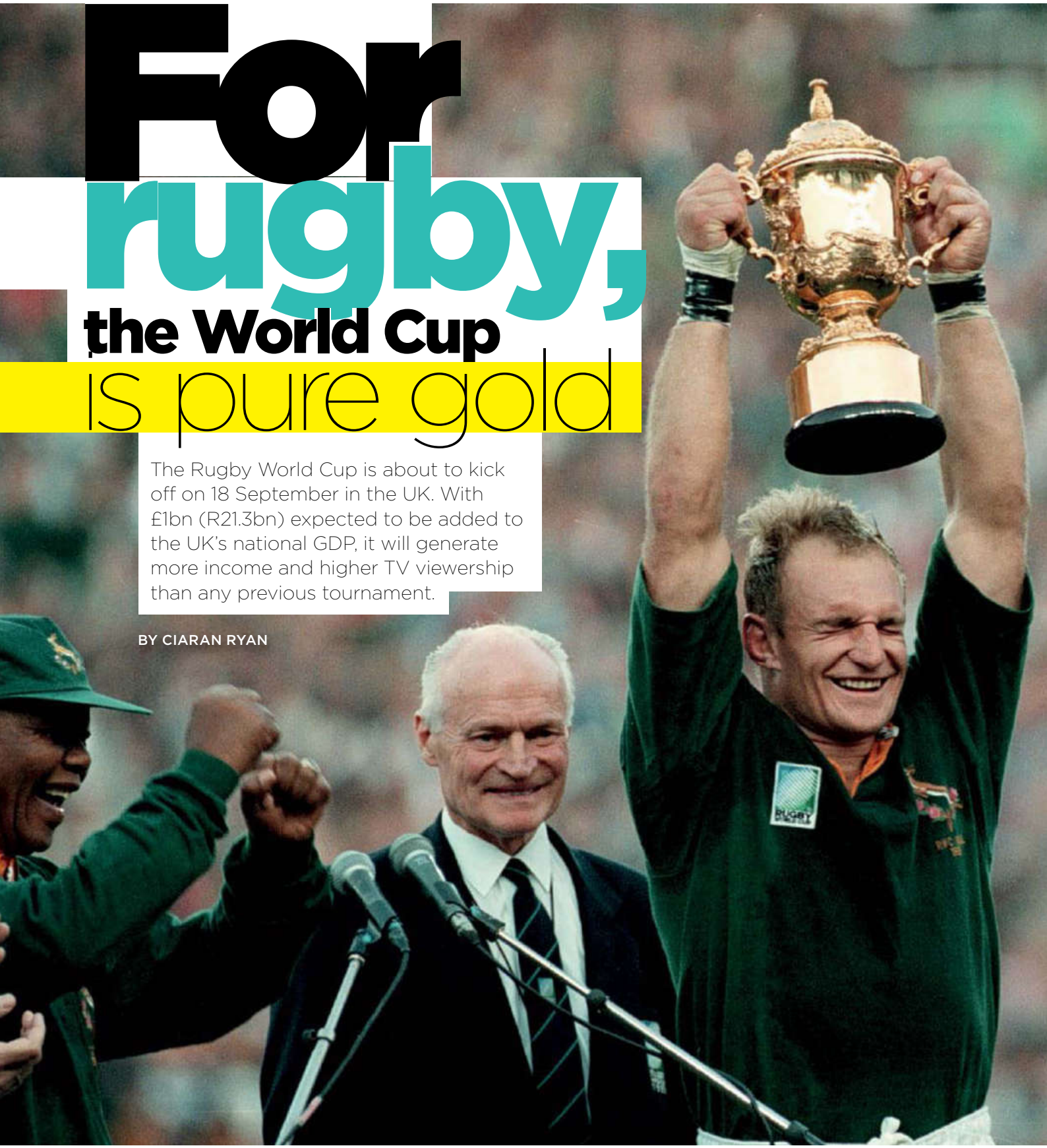
Presenters Dressed By

Carducci

For rugby, the World Cup is pure gold

The Rugby World Cup is about to kick off on 18 September in the UK. With £1bn (R21.3bn) expected to be added to the UK's national GDP, it will generate more income and higher TV viewership than any previous tournament.

BY CIARAN RYAN





Gallo Getty Images

The 2015 Rugby World Cup (RWC) kicked off on 18 September at Twickenham when host country England faced off against Fiji.

The Boks squared off against Japan in their opening match on 20 September at the Brighton Community Stadium.

For those involved in the world of rugby, this is a huge money spinner. The tournament will likely bring in £2.2bn (R45.4bn) for the UK economy, according to an economic impact assessment study by EY. Close to £1bn (R21.3bn) will be added to the UK's national GDP. A total of £85m (R1.75bn) was invested in infrastructure in preparation for the tournament, supporting 41 000 jobs around the country.

The big money is in the sale of TV broadcast rights to the tournament. The RWC is one of the most watched international competitions in the world. In 2007, the RWC attracted a cumulative TV audience of 4.3bn people. In 2011, the tournament attracted an estimated 3.9bn cumulative global TV audience in 207 territories. As a comparison, the 2014 Fifa World Cup in Brazil was estimated to have reached a cumulative audience of 26bn.

Rugby does not enjoy the universal appeal of soccer, but the RWC viewership figures are nevertheless impressive.

THE RWC IS ONE OF THE MOST WATCHED INTERNATIONAL COMPETITIONS IN THE WORLD.

According to sports management expert Michael Goldman, who is assistant professor at the University of San Francisco and Adjunct Faculty at Gibs, plans are in place to expand the appeal of the game to new territories. "Brett Gosper, World Rugby's CEO, has spoken recently about their intent to grow the RWC to more country participants, partly in order to grow TV deals and other commercial dimensions. Germany and Russia were specifically mentioned. The tournament generates 90% of World Rugby's revenues, and tournament broadcast deals contribute 60% of total revenues."

Just as the 2012 Tri-Nations became the rugby championship to bring Argentina into the fold (alongside SA, Australia and New Zealand), Super Rugby will expand to 18 teams in 2016, with new entrants from Argentina and Japan, and a sixth franchise for SA. Expanding the number of competing territories increases TV viewership and revenues for the participating rugby unions; this no doubt helped the SA Rugby Union (Saru) secure new and enhanced commercial agreements with Samsung, Coke and Marriott. Super Rugby administrators are particularly excited about Japan's entry to the tournament, as this could open the door to the giant Asian market.

Broadcasting rights for the RWC are regarded as a licence to print money. Advertisers love it because viewership figures go through the roof. In the UK, terrestrial broadcaster ITV outbid SkySports and the BBC for the exclusive rights to the 2011 and 2015 tournaments. Goldman says the deal may have been worth £60m (R1.2bn) – double the fee paid for the previous two tournaments. This explains why overseas teams are able to afford big paychecks for their players. ITV says advertising support for the RWC is particularly strong among young males.

Saru's 2014 annual report shows how much broadcasting rights bring to the domestic game. Last year it clocked revenue of more than R800m, of which R317m was from broadcasting rights and R340m from sponsorships. Ticket and merchandise sales generate relatively little revenue for SA rugby.

SA hosted only three home tests this year because of the RWC, which represents a significant drop in income for local rugby.

Saru's broadcasting income will exceed sponsorships from 2016, when it is expected to account for about 60% of the union's total income. Sponsorships are likely to catch up towards the end of the five-year broadcasting rights cycle. This is also an important source of income for the participating clubs, all of which get a share in the profits of the RWC. This includes broadcasting, sponsorship and other revenue.

Super Rugby teams sell their own sponsorships and share in broadcasting revenue, with a portion retained by Saru to cover costs. The current Bok squad is top-heavy with Stormers and Bulls players, and their respective clubs will have to pay their Springbok fees. This typically puts a strain on club finances, with the expectation that the return will come in the form of more bums on seats in future club fixtures.

HOW THE BOKS WILL EARN

When SA hosted the RWC in 1995, the sport was not yet professional, so the Boks theoretically earned nothing for their efforts. There were game and win bonuses for players, so they did not leave completely empty-handed. But the pay was nothing compared to what it is today. Shortly after the 1995 RWC victory, each Bok player was offered a four-year contract.

Veteran Bok campaigners playing abroad can expect to earn as much as R4m to R5m this year, and even as much as R6m to R7m once the effect of the weaker rand is taken into account.

The figures offered by clubs in Europe and Japan are already way ahead of those in SA, but the figures will look even sweeter once converted into rands. On this basis alone, we shouldn't be surprised to see another wave of local players heading off to European and Japanese clubs. Of the 31-strong Bok squad announced recently by manager Heyneke Meyer, seven are playing for overseas clubs on multimillion rand-a-year packages. Those players earning rands will feel like poor cousins alongside the likes of Morné Steyn, Bryan Habana, Fourie du Preez and Schalk Brits, all of whom play for

overseas clubs. By way of comparison, only two Australians in the RWC squad play for overseas teams. The rest play their trade in local Aussie teams. Not a single member of the All Black squad is listed as playing overseas.

Though the weak rand may have put more daylight between the earnings of local and overseas players, SA-based professionals can substantially improve their take-home pay with sponsorships and appearance fees. And, given the publicity around the RWC, this is a great opportunity for players to make some extra cash. But to get the really big sponsorship deals, you need to be a Victor Matfield or a Bryan Habana – faces that are instantly recognisable to the majority of South Africans – and that can take years of hard graft and outstanding performances on the field. Off-the-field behaviour also counts: no sponsor wants to throw money at a rugby player with a "questionable" reputation.

Eben Venter of Sterling Sports, which represents several high-profile rugby players, says a player's income is dependent on their brand equity. "That's why players like [New Zealand's] Sonny Bill Williams earn more on endorsements and sponsorships (than matches) – because of their strong brand equity. Players at the top level can earn up to **R50 000** for a single appearance of a few minutes and still earn a percentage for image rights over a period of a month, depending on the length of the campaign. In most player contracts, the unions or clubs specify that the sponsors of the union or club have first right to image of the players. When an agent or a player gets approached for an appearance or sponsorship, the club [approves if] it is not in conflict with the sponsors of the union."

Players' collective image rights are owned by their union, MyPlayers, which makes an annual distribution. On top of that, players also have personal endorsements. Figures are hard to come by, but some players are rumoured to be earning R4m to R6m a year from this.

Players' incomes increase dramatically during the RWC, says Venter, not only for participating players but for those players that are approached to merely appear at social functions and partake in general rugby publicity. "[It's] like silly season. A client of mine, an ex-player, made in the vicinity of R120 000 on broadcasting alone during the previous RWC," says Venter.

Sponsors are looking for a return on investment, and that means splashing their brand in front of the cameras as prominently and as often as possible.

Goldman says in terms of personal endorsement sponsorships, rugby players have not been able to take advantage of this opportunity in the same way as football players have. With a few exceptions (such as Bryan Habana), most players have not been able to generate significant off-the-field sponsorship incomes. Typical personal endorsement deals would involve a set of appearances, advertising images and product usage rights, in return for campaign-based or

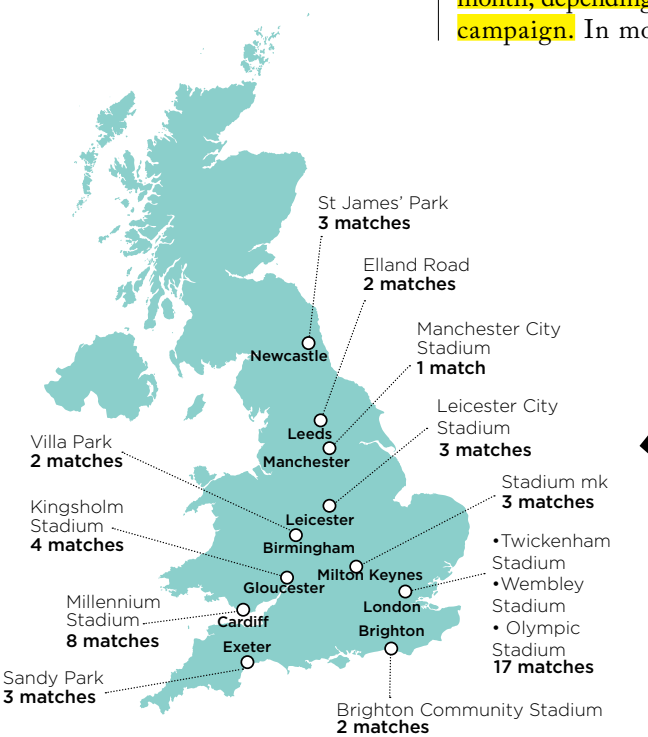
BROADCAST RIGHTS FOR THE RUGBY WORLD CUP

2007	2011	2015 ESTIMATED
TV RIGHTS (VALUE)	TV RIGHTS (VALUE)	TV RIGHTS (VALUE)
£82m (R1.7bn)	£93m (R1.9bn)	£100m (R2.1bn)
TV AUDIENCE*	TV AUDIENCE*	TV AUDIENCE*
4.3bn	3.9bn	4bn+

*Cumulative viewership

RWC 2015 HOST CITIES

RWC 2015 will be hosted across England and Wales



SOURCE: EY Rugby World Cup Economic Impact Study

13 Match venues

11 Host cities

48 Matches

20 Participating teams

15 Fanzones

44 Days of the tournament

2m+ Facebook likes

6 000 Volunteers

2.3m Tickets

contract period fees. Importantly, these personal endorsement deals would need to carefully manage any conflicting category sponsorships for the teams, leagues, and tournaments that the player competes in.

For young up-and-coming players with the right amount of talent, there are a number of scholarships available to ease them into the world of professional rugby. Some of these cover full fees at private academies, while others will partly cover costs.

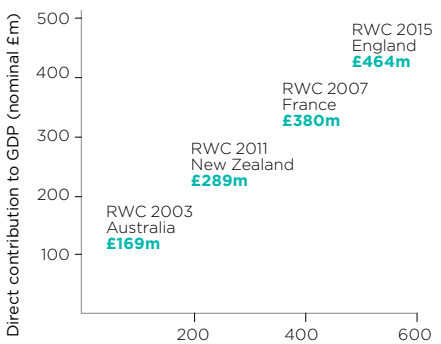
For the truly gifted, the route from high school to professional rugby – either as a member of a Currie Cup or Super Rugby team – can be as little as 12 to 18 months, at which point they can expect to earn upwards of R500 000 a year as a start.

ECONOMIC BENEFITS OF THE RUGBY WORLD CUP

The economic benefits of hosting an international sports tournament such as the RWC are not always clear-cut. For example, how do you measure the PR benefit of billions of TV viewers seeing the best your country has to offer?

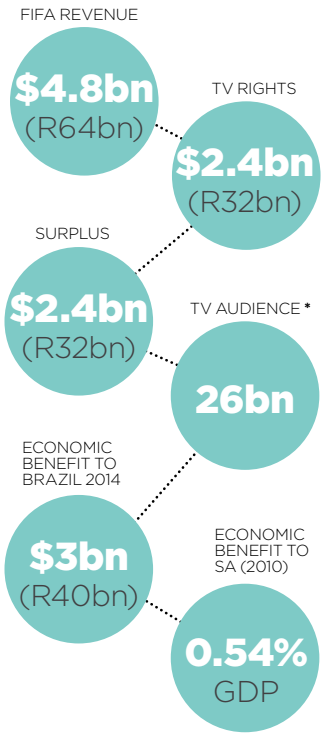
SA is reckoned to have received a 0.54% bump in GDP from the 2010 Fifa World Cup. A total of nearly 310 000 foreign tourists arrived in SA for the tournament and spent about R3.64bn during their stay, which averaged 10 days.

COMPARISON TO PREVIOUS RWC TOURNAMENTS



SOURCE: Ernst & Young

FIFA WORLD CUP 2014



*Cumulative viewership

SOURCE: EY, FIFA, Michael Goldman

There is no doubt that the global exposure SA received during the tournament lifted tourism figures in subsequent years – that is, until minister of home affairs Malusi Gigaba decided to tighten visa requirements earlier this year in his battle against human trafficking. Tourism numbers dropped 6% in the first quarter of this year compared with the same period in 2014, a loss of 150 000 visitors and R1.6bn in revenue. In one fell swoop much of the good generated by the 2010 Fifa World Cup was undone.

Doubts have been cast over the economic benefits to SA from hosting the Fifa 2010 World Cup once it became clear that many of the stadiums, roads and much of the other infrastructure upgraded for the tournament were subject to bid-rigging. Fines in excess of R1.5bn have already been paid by the cartel members accused of ramping up the costs of this infrastructure. Of the R30bn spent by SA on the 2010 Fifa World Cup, we may never know how much of this was due to bid-rigging. That has to be factored in to any assessment of the economic benefits derived from the tournament.

An economic impact study by EY suggests the UK stands to benefit handsomely as the host country for the 2015 RWC. For a start, attendance figures are higher for a European host country, given the shorter travel distances for supporters. The UK has shown itself to be an able host of large sporting tournaments, as demonstrated during the 2012 London Olympics, reckoned to be one of the best ever organised.

THE EY REPORT OUTLINES THE ECONOMIC BENEFITS OF THE RWC TO THE UK ECONOMY:

- Tournament predicted to generate up to **£2.2bn** (R45.4bn) of output into economy
- Expected to add up to **£982m** (R20.2bn) of value to national GDP
- Up to **466 000** international visitors expected, more than any other RWC
- **£85m** (R1.75bn) invested in infrastructure (includes **£76m**, or R1.5bn, redevelopment of Twickenham Stadium)
- **41 000** jobs to be supported around the country
- Economic benefit to be shared around **11** host cities ■

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WHAT FANS WILL PAY TO ATTEND THE RUGBY WORLD CUP

Travel planning company GoEuro says fans travelling from South Africa to the UK, and following the Boks for the duration of the tournament, will fork out **R333 353** in flights, travel, accommodation, tickets and other expenses. Fans travelling on a budget, but still wanting the full experience, will be paying up to **R70 763.** That is if the Springboks make it into the finals.



THE WALT DISNEY COMPANY

BUY SELL HOLD

Not just for kids anymore

BY SIMON BROWN

WE ALL KNOW Disney and most of us (even those without kids) spend money that ends up in this corporation's bank account via movies, theme parks, TV channels and of course merchandise.

The stock has sold off some 20% in recent months on the back of concerns around Disney-run ESPN (the US equivalent of SuperSport) and weaker profits from the unit.

But Americans are as sports mad as we are and ESPN is the dominant player in that space – profits will bounce back.

More importantly, a seriously huge deal for Disney is the *Star Wars* franchise it bought for $4bn (R53bn) last year. *Star Wars* is the largest movie franchise in history and with a new series of movies and a range of merchandise being released, Disney will make profits that exceed the purchase price in a short period of time.

Disney is a New York-listed company, so in order to buy, one would need a brokerage account that enables transactions in the US. This is easy enough as many local brokers now have international offerings. ■

Simon Brown
Last trade ideas

- SELL **Impala Platinum**
- BUY **Metrofile**
- BUY **TOPSBT**
- BUY **Mondi**

TELKOM

BUY SELL HOLD

Great expectations

BY MOXIMA GAMA

WILL TELKOM MEET its plans to roll out fibre broadband to a million homes by 2018? The jury is out, but it certainly would be an extraordinary feat, given that it currently only has about 38 000 fibre-to-the-home (FTTH) customers. Speaking at Telkom's annual Satnac conference on 8 September, CEO Sipho Maseko said the group expects to have 70 000 FTTH customers by the end of the year, and a massive 400 000 by 2017.

The focus on FTTH is certainly a move in the right direction for a company that's better known for making strategically disastrous mistakes (anyone remember the R7bn-odd it lost in Nigeria with its Multi-Links venture?). To put the target into context – it took Telkom 13 years to reach a million homes with its ADSL service, according to Mybroadband.co.za. But there was a crucial difference: in the case of ADSL, the copper network infrastructure already existed; the FTTH infrastructure is still being rolled out.

Telkom is also facing competition in the FTTH (and fibre-to-business) space. Companies such as Dark Fibre Africa, Vumatel and Link Africa have already started rolling out infrastructure in suburbs in major metropolitan areas. Vumatel, which started its operations a year ago in Johannesburg's Parkhust, said in August that it expects to have extended its fibre network to over 100 000 homes by the end of 2016.

Other focus areas for Telkom, which has been struggling to successfully diversify its business from its declining fixed-line business, include expanding its ICT services following the merger with Business Connexion, which was approved by the Competition Tribunal in August. The company has also struggled to grow its mobile operations, with the Competition Commission blocking a plan to extend its roaming agreement and outsourcing its mobile infrastructure to MTN. Telkom is encountering some resistance at R67.50/share, but breaching that level could propel an advance to R83/share in the near to short term. ■

editorial@finweek.co.za

Moxima Gama
Last trade ideas

- HOLD **Steinhoff International**
- BUY **Datatec**
- SELL **Aspen Pharmacare**
- SELL **Naspers Limited**

A great fund to hedge **against inflation**

BY JACO VISSER

PRESCIENT INCOME PROVIDER FUND

The fund aims to outperform the local cash and short-term bond markets and realise some capital growth. It invests in cash, short-term, high-quality capital market instruments and also preference shares and some property. The fund has an exposure to offshore instruments, including floating-rate debt instruments.

FUND INFORMATION

Benchmark:	SteFi Call 110%
Fund managers:	Guy Toms, Farzana Bayat, Jean-Pierre du Plessis
Total Expense Ratio (TER):	0.9%
Fund size:	R6.9bn
Minimum investment amount:	R10 000 lump sum or R1 000/month
Contact information:	info@prescient.co.za or 0800 111 899

PERFORMANCE (annualised) as at 31 August 2015:

	1 year	3 years	5 years	Since inception in December 2005
•Prescient Income Provider	10.47%	9.86%	9.17%	9.82%
•Benchmark:	6.06%	5.59%	5.72%	7.53%

PORTFOLIO COMPOSITION (as at 30 June 2015)

1	Floating-rate notes	26.4%
2	Floating-rate bonds	24.8%
3	Credit-linked notes	15.3%
4	Offshore (rands)	13.9%
5	Corporate floating rate notes	6.3%
6	Offshore (dollars)	3.9%
7	Cash	2.4%
8	Fixed-rate bonds	2.1%
9	Inflation-linked bonds	2.1%
10	Property	1.6%

Fund manager insights

THE FUND IS skewed towards floating-rate notes and floating-rate bonds, which are benchmarked against an interest rate, typically the Johannesburg Interbank Acceptance Rate (Jibar).

"It is easier to restructure the portfolio and add duration via swaps if the core of the portfolio is in floating-rate assets. There is good yield pickup in medium-dated floating-rate assets and your interest rate resets every quarter to the prevailing interest rate, which works well in a rising interest rate environment," Farzana Bayat, one of the fund's managers, says. "The fund aims to generate a real yield and we compound that over time."

With consumer price inflation having risen to 5% in July from 4.7% the previous month, Bayat sees that the benchmark indicator for price increases could breach the upper limit of the Reserve Bank's 3% to 6% target early in 2016.

"With the weakness in the rand we see upward inflationary pressure," she says.

About 19% of the fund is invested offshore and mainly in floating-rate instruments and properties, Bayat says. The fund's exposure to foreign currency was fully in US dollars when the rand was below R10/$. When the rand traded above R10, the fund hedged rand via a currency collar. Currently half of the offshore currency exposure has been hedged between rand/US dollar levels of 13.50 and 14.50, which means that the fund will participate in rand weakness between 13.50 and 14.50 and beyond those levels, the fund will be back in rands.

The other half of the offshore currency exposure is hedged into rand via a rand forward. The effective US dollar exposure in the fund is around 4%. Although the rand is cheap on a purchasing power basis, SA-specific risk and potential emerging market outflows on the back of higher US rates make a hedge sensible.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

The fund has consistently delivered higher-than-inflation returns to investors. For a fixed-income type of fund, this is quite an achievement. For those seeking a short- to medium-term haven for their money, the fund beats inflation even as it holds safe assets.

As inflation is likely to increase due to the weakness of the rand against major foreign currencies, it is imperative that part of an investment portfolio is hedged against price increases. With a low total expense ratio, the fund offers real returns to investors. ■

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Why not start an **investment club**?

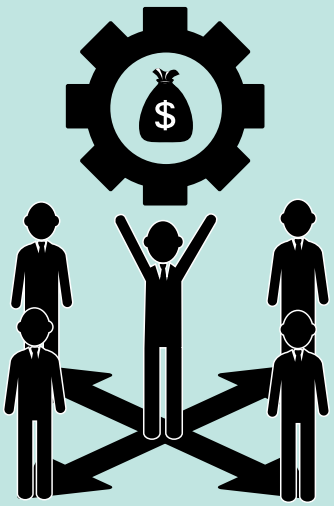
BY SIMON BROWN

I have always said that while investing is not rocket science, it does take time to understand all the ins and outs of stock markets and stock selection. In truth we never stop learning, but that initial learning curve is steep. Tackling investment collectively is one way of reducing that learning curve – which brings the idea of investment clubs to mind.

Investment clubs were a big theme during the dot-com boom but seem to have faded away over the last decade or so, yet they have a number of advantages for the individual investor.

The ability to pool cash resources potentially reduces transaction fees, as each transaction can be larger, while more money means a wider range of shares can be bought, equalling diversification.

Broadly speaking, an investment club consists of a group of people looking to learn and create wealth by investing in the stock market. Practically, they will make regular contributions to a joint fund, while deciding together about what to invest in.



THE ABILITY TO POOL CASH RESOURCES POTENTIALLY REDUCES TRANSACTION FEES, WHILE MORE MONEY MEANS A WIDER RANGE OF SHARES CAN BE BOUGHT.

SOME WORDS OF CAUTION ABOUT INVESTMENT CLUBS.

When any group forms, rules are required. The initial excitement of working towards a common goal could wear off quite quickly, so you need to ensure that ground rules that have been agreed upon by all members are firmly in place.

- The process starts by forming a partnership – a simple yet legally binding agreement between a group of people. The partnership will have a constitution, which includes rules regarding the roles of members belonging to the partnership.
- The chairperson will run proceedings and a vice-chairperson could also be appointed if the group is large. The responsibility of each member needs to be clearly defined from the outset and it is the chairperson's responsibility to make sure all members are fulfilling their duties.
- The treasurer is responsible for ensuring monies are paid, while the trader will carry out the transactions as agreed upon by the group.
- In order to keep a record of decisions made, a secretary will need to be appointed.
- Finally, a member needs to be assigned to monitor the financial operations of the group in order to make sure all is running correctly – an internal auditor, if you will.

The money side of the operation is of course the most important; not only in terms of contributions, but also withdrawals. Contributions need to be agreed upon not only in terms of amounts and when they will be paid, but also in terms of other issues such as members wanting to raise a contribution or take a payment holiday.

AND WHAT IF A MEMBER WANTS TO WITHDRAW MONEY FROM THE CLUB?

Here you need to make sure everything is very clear. I would suggest that withdrawals are accepted given a clearance period of one to three months. The clearance period protects the club from being forced to sell immediately in order to raise cash. Another way of managing this is to always keep a percentage of contributions in cash, say 5%; a member can then withdraw 5% immediately and the balance would require a waiting period.

It is important to keep a record of growth and each member's holding. I always unitise the portfolio so everybody's holding value is easy to calculate (I will write a separate column on unitising a portfolio).

Lastly, you need to find a group of people and this is often easier than you'd think. Ask around at work, your friends and family or try Twitter and Facebook. Ideally you'd want four to 10 people and finding a group of that size with a couple of hundred rand to invest every month shouldn't be too hard. Set regular meetings and start the process of learning and investing and perhaps even more importantly, having fun. ■

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Gallo Images/iStock

RMI: Is the downside losing steam?

CATCH MOXIMA GAMA ON *FINWEEK: MONEY MATTERS* **ON CNBC AFRICA** EVERY FRIDAY AT 1PM.

BY MOXIMA GAMA

Rand Merchant Insurance Holdings (RMI), which owns the insurance assets previously held by RMB Holdings, warns that the 2016 financial year will be a "challenging" one with low GDP growth, higher unemployment and pressure on disposable income.

The group, which reported a 6% increase in net profit for the year to end June, earns the bulk of its income from its stakes in Discovery (in which it holds 25%), OUTsurance (83%) and MMI Holdings (25%).

Insurance companies make money by collecting regular (usually monthly) premiums from clients, giving them a steady stream of cash flow. They invest the bulk of this money and earn returns on it. Their fortunes are therefore closely tied to the financial markets, the general state of the economy and events like natural disasters.

OUTsurance's Australian business Youi, for example, was hurt in the past financial year by an increased claims ratio due to the worst weather conditions experienced by the country in the past decade.

Through its diversified portfolio of assets, RMI offers investors an interesting entry point into the local insurance sector, providing exposure to companies operating in life insurance, medical insurance, short-term insurance and asset management. It also provides exposure to traditional broker channels (used by MMI and Discovery), and the direct channel employed by OUTsurance.

Its new asset management subsidiary, RMI Investment Managers, is "successfully gaining traction" and is expected to make a contribution from the 2016 financial year, RMI said. Deals have already been struck with NorthStar, Perpetua, Tantalum and CoreShares, and in July announced it has hired the entire fixed-income team from Cadiz Asset Management.

RMI has also launched a "next-generation business platform" called AlphaCode with the aim of identifying and enabling entrepreneurs or businesses with great ideas that could shake up the financial services industry. It made its first investment in September, buying 25.1% of Merchant Capital for an undisclosed sum. Merchant Capital, which was established in 2012, funds small- and medium-sized enterprises and uses innovative technology that allows clients to repay their loans based on the cyclical nature of their businesses.

With this strategy in place, I believe RMI is positioning itself as an increasingly diversified player in the financial services sector, while offering exposure to a diversified portfolio of established insurance players such as Discovery. I expect a lot of upside direction in their OUTsurance division, which contributed R1.17bn in headline earnings, or 36% of overall headline earnings, in the year to end June.

POSSIBLE SCENARIO: RMI could be forming a falling wedge after correcting from the third phase of its primary bull trend. A recovery above R26.55 should see RMI regain upside to the R28.25 resistance level. A good entry point would be presented above that level, potentially triggering a gradual advance to the R54.30 targeted level in the long-term (one to five years). The mega-oversold monthly relative strength index (RSI) is due for a bullish reversal.

ALTERNATIVE SCENARIO: RMI could fall further to the black dashed trendline, which would be breached below R21.85. If so, next support would be at R19.10. ■

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RAND MERCHANT INSURANCE



52-week range:	R33.52 - R48.94
1-year total return:	+20.4%
Current P/E ratio:	18.86
Market capitalisation:	R61.6bn
Earnings per share:	R2.20
Dividend yield:	2.79%
Average volume over 30 days:	2 108 310

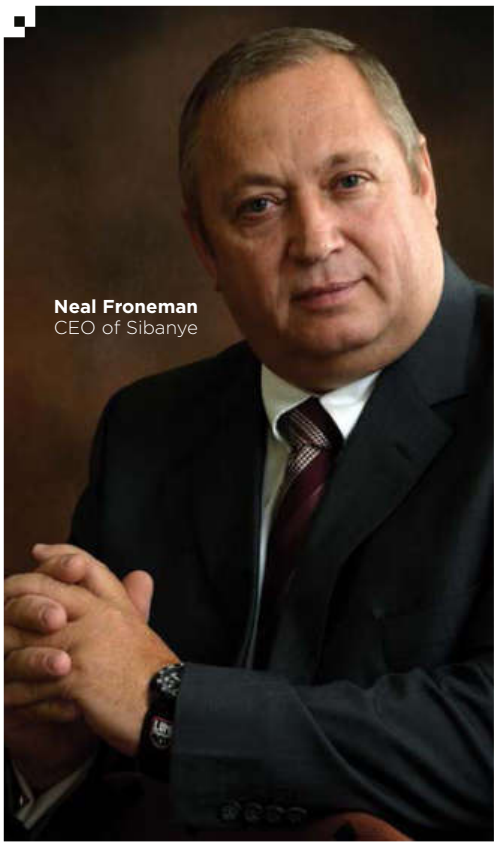
SOURCE: Bloomberg.com

Simon's stock **tips**

BY SIMON BROWN

CAN SIBANYE MAKE IT WORK?

The Anglo Platinum/Sibanye transaction is a huge deal and, interestingly, both share prices went up on the announcement (usually a deal sees one go up and the other go down). This suggests the market feels Neal Froneman and Sibanye can do a better job with the Rustenburg mines than Anglo Platinum can. The terms are also interesting in that they seem to favour Sibanye, but Anglo Platinum receives a share of free cash flow that could be substantial if Sibanye makes it work. However, even while Froneman has a reputation for managing marginal mines well, every challenge is new and different and there is absolutely no certainty that he will succeed here. Finally, the investment case for Sibanye was marginal gold mines, but now it includes marginal platinum mines – is this an issue for shareholders? I'm not sure but I'll guess that if Sibanye makes it works it won't matter.



Neal Froneman
CEO of Sibanye

BRAIT: BUSINESS AS USUAL

The convertible bond issued by Brait saw a lot of selling pressure on the day as the stock traded down some 11% before closing off almost 8%. **The reason is simple and not worth panicking about: shareholders, a lot of them, decided to switch out of the Brait share into the bond as they get a yield on the bond of 2.75% in sterling and they convert into Brait shares in 2020.** The conversion price has been set at 30% above the current share price of Brait and the share is surely going to be 30% higher in five years' time… So for a lot of large players in the market this was a no-brainer of a trade and the share price will now carry on as usual.

MIX TELEMATICS BUYBACK MAKES SENSE

Ever since listing its American Depositary Receipts (ADRs) in 2013 at around R6, the Mix Telematics share price has been sliding. The company has now announced a share buyback programme of almost 5% of the issued shares. I am typically not a fan of share buybacks, but if a company is going to do one, then at least do it when the share price is at multiyear lows as is the case with Mix Telematics.

SPUR NEEDS TO SEIZE OPPORTUNITIES

Spur results were not thrilling; diluted HEPS were 3.2% lower, albeit the company trumpeted "comparable" HEPS as being up 14.3%. But comparable is not an official accounting term so I ignore it. What the company does have is a large cash pile of over R300m, mostly as the result of the sale of 10% of new shares to Grand Parade. While Spur fails to excite me, that cash pile and the Grand Parade deal certainly offer opportunities that management needs to grab. However, my concern with Spur has always been a management team that seems overly cautious; I would want to see evidence of a changed mindset before I become interested. It certainly lags behind the brand leader in the space, Famous Brands*, both in terms of share price performance and in deal-making ability.

WHERE TO FOR THE RAND?

Recently the question everybody has been asking me is where the rand is going. Short answer: predicting the currency is pretty much impossible; predicting larger trends is possible, but still risky to one's reputation. I'll stick my neck out: in my view, this weakness is overdone and we'll see some rand strength starting to happen eventually. As to when and by how much, I have no idea, but it will potentially strengthen by a lot more than anybody expects. In the years ahead, a move to the R10/$ mark is possible. ■

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** The writer owns shares in Famous Brands.*

Santam still going strong

BY SARINE BARNARD
Analyst at Investec Asset Management

In its 97th year of operations, South Africa's oldest short-term insurance company Santam still has a lot of potential that should excite investors.

One of the reasons behind Santam's success over the years has been its diversification strategy that started with the acquisition of Guardian National Insurance in 1999. This acquisition increased the company's market share substantially and strengthened its position in the corporate and commercial insurance markets.

Apart from product diversification, Santam also made efforts to diversify its distribution and today 17% of gross written premiums are generated from outside of the traditional, core intermediated network. One of the major developments in this regard was the purchase of MiWay, a direct writer, from parent company Sanlam. This focus on channel diversification helped Santam to maintain market share over the past five years, while its intermediated peers have lost significant share to direct writers such as OUTsurance and Telesure. Santam's 23% market share – more than double that of the closest competitor – gives the business significant scale benefits, as insurance businesses typically have large amounts of fixed costs.

Financially, the business is in a healthy position: its underwriting margins compare favourably to that of the industry and the business is well capitalised ahead of the implementation of the new solvency regime. These new regulations will, in fact, provide Santam with an opportunity to grow its book by helping smaller insurers that might be penalised under the new capital requirements. While MiWay currently only contributes around 7% of gross premiums, it is growing strongly (the most recent results indicated a 17% growth in gross premiums).

SANTAM'S
23%
MARKET SHARE – MORE THAN DOUBLE THAT OF THE CLOSEST COMPETITOR – GIVES THE BUSINESS SIGNIFICANT SCALE BENEFITS.



Santam Ltd



52-week range:	R188 - R245
1-year total return:	+8.7%
Current P/E ratio:	14.9
Market capitalisation:	R26.3bn
Earnings per share:	R15.34
Dividend yield:	3.37%
Average volume over 30 days:	145 099

SOURCE: Bloomberg.com



MiWay's underwriting margin is already close to 10% after only seven years in operation, and we believe there is ample room for profitability to increase further.

Santam has also looked for growth beyond SA's borders and invests, alongside Sanlam, in SEM – the group's emerging markets business. It has short-term insurance interests in India, Malaysia, Nigeria, Botswana and Ghana, among others. While it is still small, it offers some attractive opportunities in the long run.

Santam's shareholders have greatly benefitted from the group's relentless focus on capital management. Its return on capital over the past 10 years has averaged more than 25% and it has grown its dividend by 9% in the same period. It does not believe in hoarding capital – any capital in excess of its needs is paid to shareholders in the form of special dividends (of which there were five over the past decade).

All of these factors make Santam a high-quality business, with a very good management team, that offers investors reasonable value at current levels. The current price-to-book ratio of 3.7 times is justified by the high returns on capital. Although underwriting margins are typically volatile, we believe Santam can continue to deliver underwriting margins over time at the high end of their own targets, aided by increased underwriting margins of MiWay, which could exceed investors' expectations. The current normalised price-to-earnings ratio of 13.5 times compares favourably to the market average of approximately 17 times. The dividend yield is 3.6% and we anticipate this to increase by approximately 8% to 10% over time. In addition to the normal dividend, shareholders will get special dividends as the business builds up excess capital. ■

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www.santamre.com

What are the biggest **SA fund managers** up to?

BY SCHALK LOUW
Portfolio Manager at PSG Wealth

I'm sure you will probably agree that great uncertainty seems to be the driving force behind world markets at the moment. When the sun shines at its brightest on the markets, investors seem blinded by the light and unable to see actual fair value, while these very investors fail to see anything good when the markets are at their darkest.

Every morning, while getting ready for work, I switch my television to one of the international financial channels to listen to the views of various well-known investment institutions. What I find very interesting is the fact that their views seem to change daily – especially these days. One morning we are told that the outlook seems positive and that we may be approaching the end of the markets' decline. The next morning, after the release of one or two sets of negative data from China, we are made to feel that the end of the world as we know it is near. No wonder investors feel like a chameleon on a box of Smarties.

As the saying goes, however, "talk is cheap, but it takes money to buy a farm", so what really matters is what you are doing. What exactly are investors doing, given our current market conditions?

A good local investment aid is to have a look at the actions taken by the five largest balanced funds. These five funds have a total market capitalisation of just below R2tr, which means that their actions certainly matter. We can monitor these actions by looking at asset class movements within these funds, for example. This data is released on a monthly basis via the respective fund managers' fund fact sheets and it clearly shows what these managers did over a specific period of time. How were these funds positioned since the market turbulence started, and what do they look like at the moment? Fund managers positioned these funds more defensively roughly a year ago, with their total equity exposure (both locally and internationally) lowered from an average of 68.4% in September 2012 to 63.3% in September 2014. The decrease in equity exposure came mainly from local equities, and in part possibly due to the extreme weakening of the rand. Over the same period, these five funds also increased their average money market exposure from 16% to 19.5%, proving that even our local investment professionals weren't all that comfortable with valuations and the investment playing field in which these valuations were to be found.



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INVESTORS SHOULDN'T BE AFRAID TO HIDE IN **CASH INVESTMENTS** WHEN THEY FEEL UNCERTAIN AND OUR TOP FUND MANAGERS CLEARLY SHARE HIS VIEW.

These funds have maintained their fixed interest exposure at around 28%, while the money market was clearly used as an escape whenever market uncertainty became a major concern. Even Warren Buffett mentioned on several occasions that investors shouldn't be afraid to hide in cash investments when they feel uncertain and our top fund managers clearly share his view.

With the most recent market movements, these funds have started to use market weakness over the past two months to lower their fixed interest exposure, while increasing their exposure to equities. The process remains slow however, as it is nowhere close to the levels seen three years ago.

In conclusion, I will reiterate the fact that investors shouldn't be driven by emotions in current market conditions. If we were to compare investments to a cricket match, it should be seen as a five-day series, rather than a Pro20 or even a one-day match. Learn from the investment experts and rather use these conditions to sort out your weightings. ■

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Help the fight against crime

Report suspicious and unusual transactions to the Financial Intelligence Centre

The Financial Intelligence Centre (FIC) is reminding all businesses of their obligation to note any unusual, suspicious or abnormal transactions which may occur during the course of their business, and to report these to the FIC.

The mandate of the FIC is to identify the proceeds of unlawful activities and to combat money laundering and the financing of terrorist and related activities. Reporting suspicious and unusual transactions is regarded as an essential element of fulfilling this mandate.

The FIC is a member of the Financial Action Task Force (FATF), the global anti-money laundering and anti-terror financing standards setting body. South Africa joined FATF in 2003, bringing the country in line with international standards and practices for anti-money laundering and combating terror financing. The Financial Intelligence Centre Act No. 38 of 2001 (FIC Act) seeks to ensure the integrity of South African financial institutions.

Various compliance obligations have been introduced in terms of the FIC Act to enable the protection of institutions against exploitation by criminals and terror financing networks. In the execution of its mandate, the FIC requires all businesses to submit suspicious and unusual transactions reports (STRs) to the FIC.

The obligation to report STRs to the FIC in terms of section 29 of the FIC Act applies to all businesses in South Africa. The obligation to report suspicious or unusual transactions applies to any person who:

- Carries on a business
- Is in charge of a business
- Manages a business
- Is employed by a business

STRs must be reported to the FIC using the online reporting mechanism – which can be found on the FIC's website – www.fic.gov.za by clicking on the Reporting button. The report should be submitted to the FIC within 15 days after the suspicion has been formed.

The FIC Act protects the person who submits the STR to the FIC. In addition to protection against legal liability, the identities of those involved in making a report to the FIC remain confidential.

Section 29(3) of the FIC Act prohibits a business or employee of a business that has filed a STR with the FIC from disclosing, making available or discussing whether a STR has been filed with the FIC, or sharing that STR or the content thereof, with any person.

Failure to report STRs could lead to action being taken against the person/business that fails to submit the STR to the FIC.

The FIC works closely with partners such as the South African Revenue Service, law enforcement agencies as well as other financial intelligence units, and is mandated to provide financial intelligence to help combat crime.

Below are some case studies, taken from the FIC's 2013/2014 annual report, illustrating how financial intelligence produced by the FIC has been essential in assisting our partners in solving crimes.

By reporting suspicious and unusual transactions to the FIC, you are helping in the fight against crime.

The FIC assisted the South African Police Service (SAPS) in a fraud investigation involving theft of R1m from a company by a SAPS employee. The FIC identified the flow of money associated with the theft, revealing the bank account, insurance policies and immovable properties. This was shared with the Asset Forfeiture Unit (AFU), which used it to obtain a confiscation order for property valued at nearly R1m.

A government department was defrauded of R61m that was illegally paid to a construction company. FIC analysis revealed that numerous accounts were used to launder these funds and acted to secure the proceeds through 11 intervention orders. Information collected by the FIC enabled the AFU to obtain orders against property belonging to the company and almost R60m was recovered. The suspects are currently facing prosecution for fraud and money laundering.

Following the bust of an East Rand drug lab, SAPS arrested several suspects and seized drugs to the street value of R10m. During subsequent investigations, the FIC worked closely with the AFU and identified R6.5m in assets linked to these individuals. Based on STRs from businesses the FIC identified proceeds of crime in several accounts and shared this information with the AFU, enabling it to obtain preservation and forfeiture orders.

financial intelligence centre
REPUBLIC OF SOUTH AFRICA

Queries on STRs and other compliance matters can be directed to fic_feedback@fic.gov.za or call our Compliance Call Centre on 0860 222 200.

NEW SMALL BUSINESS SERIES

Calculating capital when starting your business

BY JACO VISSER

When you are preparing to launch a business, one of the most important steps you need to take is to accurately calculate the capital needed. *Finweek* spoke to some experts to find out more about this process.

Running into a cash flow crunch is inevitable for any business, according to Ethel Nyembe, head of small enterprises at Standard Bank. To avoid this, entrepreneurs will need to dissect all their cash needs as conservatively as possible.

"It boils down to balancing the cash coming into the business with the cash flowing out of it," Nyembe says.

When you draft a preliminary, or *pro forma*, cash flow statement for the first few months, you should include a number of items (see box).

Most important is the expected revenue or sales of goods and services. Once entrepreneurs have established a need in the market for a product or service, they should have a rough idea of the volume of product sold or services rendered over a specific period.

Banks, as an example of a potential funder, would like to see a realistic cash flow projection, according to Alan Shannon, head of small business banking professional banking sales at Nedbank.

"Entrepreneurs tend to be too optimistic in their projections of sales," he says. "Not meeting those projections may hit the entrepreneur's credibility. Conservatism is needed."

The potential business person also needs to ensure that they do not chase sales without carefully considering business costs, according to Nyembe. This is easier when there is a structured plan for the new business. A cash flow statement is one such tool to provide focus for an entrepreneur.



Ethel Nyembe
Head of small enterprises at Standard Bank

TIPS ON COMPILING A *PRO FORMA* CASH FLOW

- ❒ Estimate your monthly sales in an honest way – don't overestimate the number of products or the services you'll sell.
- ❒ Be certain about the cost of sales – rather overestimate the cost of producing a product or delivering a service.
- ❒ Be realistic about your staff expenses – remember to include payroll levies such as the statutory skills development levy and Unemployment Insurance Fund levy.
- ❒ Budget for finance costs – this may include interest on a loan or overdraft.
- ❒ Remember costs such as accounting fees, legal expenses and bank charges.
- ❒ Compute the cash inflow from debtors – remember that certain debtors will pay late and what you sell to debtors this month only gets paid next month.
- ❒ Budget for your VAT payment – don't let this figure catch you off guard at the end of the month.

Compiling a cash flow statement:

▶ The cash flow projection should give a truthful picture of what it will cost to produce the product or deliver the service. This is called cost of sales. It's a variable cost that fluctuates with the number of product or service units sold.

▶ There will be some fixed costs, called overheads, which tend to be the same every month. These could typically include rental, municipal charges, staff salaries, bank charges, computer expenses, fuel, insurance, security, telephone costs and cleaning.

▶ There will also be some one-off costs that don't recur monthly, but rather yearly. These include accounting fees, legal expenses and staff clothing, for example.

▶ Two other important cash outflows that aren't costs, but need to be budgeted for, are value-added tax (VAT) payments and provisional tax. VAT is paid at the end of the month for the prior month's takings and provisional tax is paid at the end of August and February where the business's year-end falls on the last day of February.

Once all the different possible cash flow items are recognised and it seems that the business would generate a surplus in cash, the entrepreneur can start making plans to obtain funding.

"We look for good money management," says Standard Bank's Nyembe. ■

editorial@finweek.co.za

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Chang, the change agent

BY MANDY DE WAAL AND JON PIENAAR

Now, more than ever before, technology is challenging the way successful businesses operate, because it is proving to be a disruption that can level an entire market. Trend analyst Dion Chang understands that for business leaders steering large corporations, this can be scary. Chang speaks to *Finweek* about the business of change.



Dion Chang is in Cape Town to speak to an academic institution and the CEO of a major financial business – both want advice on how to spot disruptive trends, and to manage change.

"I think interest in me sparks when businesses see the danger signs on the horizon," says Chang who's sitting in a trendy inner city hotel ahead of an open presentation he's giving on 'the war zone'.

The battle royale that brands and businesses are facing now is the war for relevance. Think of how Uber upended the taxi business and transport sector by using technology to connect people with cars, to people who needed rides. "For the most, businesses aren't proactive when it comes to disruption; they tend to be reactive, so in our business what we're seeing is a lot of catchup."

In Chang-speak, 'catchup' is what happens when brands get caught in the headlights of oncoming change and realise they need to do something smart pretty soon, or face obsolescence.

Chang explains how the insurance industry made its bread and butter from insurance brokers and how the digital era has disintermediated this, making insurance a direct product where comparison browsing online is a key consumer activity. "In the digital era, it's absolute suicide to have a third party represent your brand and sell your product. But that is how the entire industry's been set up," he says.

"In a digital era you want to control your own omnichannel, you want to sell your own product. If there's social media spewing out content, then you want to be able to manage this totally," adds Chang. His knowledge speaks to trends, technology, future-casting and how the future will challenge and change businesses. "If there is an intermediary disrupting your relationship with your clients this is a problem. And if your entire industry is built on a disrupted relationship with your client, how are you going to change that?" Chang asks.

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"It's gobsmacking to see how far ahead, or how far behind, certain industries or sectors really are. Sometimes I get a real shock. But that's maybe because I live in the future perpetually," says the trend analyst.

The sector most under siege, currently, says Chang, is the media and retail space. "I'm watching these sectors really carefully, because social commerce is going to be a big factor going forward for both industries. In short, social media has morphed from a communications

Dion Chang
Owner of Flux Trends

Photo supplied

platform to a selling platform, so you can buy stuff automatically using social media. This is going to impact retail sales significantly," he says.

When you ask Chang what he does, he says his big challenge is facilitating change. "When people ask: 'What do you do?' I say I make people think differently. It's obviously about trends because I work in a disruptive space, but essentially I am something of a futurist who is forever curious. But my main challenge is to get people to think differently. If I achieve this, then I have done my job," he says.

Chang's trend analysis firm, Flux Trends, tracks social dynamics and delves into consumer mindsets. Although based in South Africa, the company keeps a keen eye on international trends to ensure South African businesses remain globally relevant. Due to his ability to question and shift an audience's perspective – to make them 'think differently' – Chang is frequently invited to speak at conferences and to guide think tanks for companies that are facing sectoral disruption.

Before pioneering the local trends sector, Chang spent 15 years in the print magazine sector, which gives him a media-based insight into the shifting relationships between brands, consumers and the communication channels that mirror them. Ten years ago, Chang moved from the magazine world to become one of SA's first trends analysts.

"I started Flux as an information distillation service. Then it got into consumer behaviour and then the place I really like it now: strategy and business trends," says Chang, admitting freely that this was not planned, but how following his calling led him on this path. "What we do at Flux is to join the dots and find the interconnectivity. I think that in a digital era you forget the cause and effect and the interconnectivity of stuff, because there just is so much information. Generally people drill down into their own industry or own area of interest, because of the sheer avalanche of information." Chang connects the dots between sectors, opening up a wider perspective.

Chang believes that useful links can always be found, if one knows what to look for.

"It can be as arbitrary as how the hipster movement impacted shaving foam and razor blade sales, to how politics and politicians influence things. So we look at things very holistically, and I think that is what is different about our approach."

The world is a changed place, thanks to technology, and new rules apply. People no longer follow a linear career path from school, to tertiary, to employment, to retirement. Now, says Chang: "It's university, upskill a little bit, mini-retirement, further education, change direction completely, work a little bit, mini-retirement. The manner in which people approach work can be very haphazard."

But business structures are not designed to accommodate this. Chang says new ways of working that are emerging to accommodate this include 'holocracy' (self-management combined with hierarchical structures); 'work swarms'; and other strategies that aim for agility and flexibility, while taking advantage of technology to connect teams.

"All of these new working concepts are stumping big corporates, because big businesses are hierarchical and they move slower. If it's going to take months or years to change direction, well, you might as well pack it in now." Change never arrives at the pace one wants it to, which is possibly why Chang's currently in such demand. ■

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EIGHT TOP TRENDS FROM DION CHANG

What's in store for 2016 and beyond? Dion Chang offers *Finweek* insight into some of the rising trends of which retailers and brand owners should be aware.

1. Transhumanism: A trend that will forever change capitalism, transhumanism is about the convergence of human and machine. It is already evident in ingestible technology and pioneering breakthroughs in neurology and technology.

2. Nanotechnology: The weaving of technology with material fibre to create items like USB-enabled belts, clothing that can display information or stain-repellent clothing. This trend will see clothing used to give wearers feedback about their wellbeing to help them live longer, healthier lives.

3. The rise of the spornosexual: Gone is the hipster facial hair. The spornosexual – clean shaven and muscularly 'ripped' – will see men's grooming companies jump for joy. Men's razors will be back with a vengeance as being clean-shaven becomes de rigueur.

4. Living clean: At a recent retail session, Chang predicted that this festive season would see a move to what he called "clean living". This trend, he said, would see consumers embracing fruit soups and cleansing broths. For retailers this would mean strong sales in specialised, high-end blenders.

5. Call me Mx: The rise of the Transgender/Genderfluid Generation. Caitlyn Jenner has hit the headlines, and TV series *Transparent* has been a huge hit. The Oxford English Dictionary has now added the honorific 'Mx' (pronounced 'mix') to represent transgender people and those who do not wish to identify with one particular gender. SA is catching up with some of the more progressive countries, with UCT having introduced gender-neutral toilets on campus.

6. Digital addiction: Humanity's new drug of choice is being delivered via high-speed connectivity to your mobile phone. You guessed it. Thanks to smartphones the incidence of people obsessed with all things digital is on the rise. When does it become addiction? "Anyone who checks his/her phone on waking and before sleeping, if your eyes burn and if you have regular arguments about devices with your spouse or children," says Chang who offers executives insights on how to manage their dependency.

7. The rise of the robots: Humanity is rapidly approaching 'The Singularity' – a point where computers surpass humans in terms of intelligence. Futurist Ray Kurzweil has been predicting this for years: Google has its robotic cars, and stock in Amazon warehouses is managed by robots that have replaced humans. Even the ATM is a roboticised teller, so robots already live among us.

8. E-Sport – gaming's parallel universe revealed: Virtual reality and sites that allow you to watch someone playing a video game are just two of the emergent spin-offs of the multibillion-dollar gaming industry.

Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
AMECOR	D Colley	3 September	Purchase	151,662	220	333,656	4 September
ARGENT	SJ Cox	4 September	Purchase	6,228	400	24,912	7 September
BIDVEST	AW Dawe	3 September	Sell	38,044	32332	12,300,386	4 September
BRIMSTONE	T Moodley	3 September	Exercise Options	7,268	550	39,974	4 September
CITY LODGE	C Ross	4 September	Purchase	11,488	14831	1,703,785	15 September
CITY LODGE	MC Van Heerden	4 September	Purchase	686	14831	101,740	15 September
CITY LODGE	AC Widegger	4 September	Purchase	9,016	14831	1,337,162	15 September
DISTELL	NT Moodley	2 September	Sell	3,761	17210	647,268	7 September
DISTELL	NT Moodley	2 September	Sell	5,667	17245	977,274	7 September
DRDGOLD	DJ Pretorius	4 September	Purchase	100,000	215	215,000	7 September
GOLD FIELDS	PA Schmidt	2 September	Sell	19,871	3988	792,455	4 September
GOLD FIELDS	PA Schmidt	2 September	Sell	27,440	4217	1,157,144	4 September
GROWPNT	N Kuzmanich	4 September	Exercise Options	25,386	2530	642,265	15 September
GROWPNT	G Volkel	8 September	Sell	5,551	2505	139,052	15 September
GROWPNT	G Volkel	8 September	Purchase	7,988	2500	199,700	15 September
HYPROP	KM Ellerine	3 September	Purchase	7,396	12175	900,463	8 September
HYPROP	KM Ellerine	4 September	Purchase	92,604	12259	11,352,324	8 September
ITALTILE	BG Wood	1 September	Exercise Options	1,000,000	1143	11,430,000	3 September
ITALTILE	BG Wood	1 September	Exercise Options	500,000	1182	5,910,000	3 September
ITALTILE	BG Wood	28 August	Sell	89,762	1150	1,032,263	3 September
LIB HOLD	T Dloti	1 September	Sell	10,397	12428	1,292,139	3 September
LIB HOLD	JM Parratt	1 September	Sell	723	12428	89,854	3 September
METROFILE	DJJ McMahon	4 September	Sell	200,000	475	950,000	15 September
MPACT	BDV Clark	4 September	Purchase	121	4598	5,563	15 September
MPACT	JW Hunt	4 September	Purchase	869	4598	39,956	15 September
MPACT	BW Strong	4 September	Purchase	2,701	4598	124,191	15 September
MPACT	R von Veh	4 September	Purchase	736	4598	33,841	15 September
OMNIA	WT Marais	1 September	Sell	95,832	17000	16,291,440	8 September
PRESCIENT	M Buckham	7 September	Purchase	1,000,000	100	1,000,000	8 September
ROCK	A van der Veer	1 September	Purchase	34,025	2935	998,633	7 September
SANTAM	M Allie	7 September	Purchase	842	22200	186,924	15 September
SPANJAARD	BL Montgomery	1 September	Sell	292	410	1,197	8 September
SUN INT	B Modise	2 September	Purchase	5,000	9961	498,050	3 September
SUN INT	B Modise	2 September	Purchase	500	9961	49,805	3 September
SUN INT	B Modise	2 September	Purchase	500	9961	49,805	3 September
SUN INT	GE Stephens	2 September	Purchase	10,029	9971	999,991	3 September
TRNPACO	SI Jacobson	7 September	Sell	750	2478	18,585	8 September
WOOLIES	SAR Rose	7 September	Purchase	1,031	9650	99,491	8 September

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)	SHARE	FORECAST DPS (c)	FORECAST DY (%)
DRDGOLD	25	12.5	GLENCORE	222	8.3
EQSTRA	32	10.9	FORTRESSA	129	8.1
REBOSIS	109	10.2	VUKILE	148	8.1
PAN AFRICAN	15	10.1	ACCPROP	54	8.1
EMIRA	146	8.6	LEWIS	528	8.1

TEST YOUR **KNOWLEDGE**

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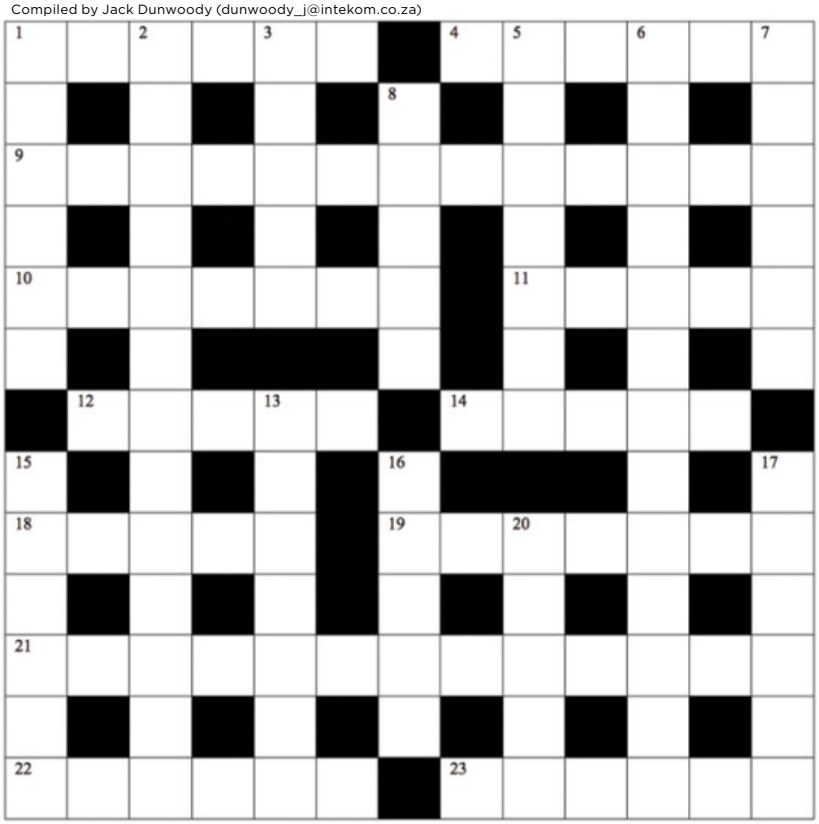
It's time for yet another quiz! Let's see if you know what's been happening in the world over the past few days. We also included some general knowledge questions. To find out the answers, complete the quiz on Finweek.com. Congratulations to recent winner Ludré Swift, who won a copy of *Relentlessly Relevant* by Douglas Kruger.

1	Supply the missing word to complete the name of the organisation Nafcoc: National African Federated _____ of Commerce
2	In which country is the prehistoric monument Stonehenge situated? ■ Ireland ■ The UK ■ Iceland
3	Who is the Springbok coach? 
4	**True or false?** Tom Johnson is the new Australian prime minister.
5	**True or false?** Zagreb is the capital of Hungary. 
6	Which SABC official recently called for media regulation? ■ Frans Matlala ■ Barend van Zyl ■ Hlaudi Motsoeneng
7	**True or false?** North Korea recently announced that it had reopened its main nuclear plant. 
8	Of which company is David Constable the CEO? ■ ArcelorMittal ■ Harmony Gold ■ Sasol
9	Which country does the rugby player Sonny Bill Williams play for?
10	Name the new species of hominid that was recently discovered at the Cradle of Humankind.

CRYPTIC CROSSWORD

NO 600 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

1 One snag a thatcher faces is trapping a bird inside (6)
4 Pompous person upset by charge (6)
9 Not on account of someone else? (2,4,3,4)
10 Being within Knight assembly (7)
11 An Irish accent from the start indicates a rascal! (6)
12 Inappropriate to put a pile into unit trusts (5)
14 Dead before being recognised as a great poet (5)
18 Writer will read out a passage (5)
19 Ascot item of dress (7)
21 A vengeful exchange of viewpoints? (2,3,3,2,3)
22 Serve with a summons, we hear, to write (6)
23 The range sounds enormous (6)

DOWN

1 In the style of music in the West Indies? No, another place altogether! (6)
2 Can't see where to put hat? (5,4,4)
3 Listens to the two men, the latter's confused (5)
5 Crooned a tune in return for a drink in Spain (7)
6 A monster ghost metamorphosed between the rest (7,6)
7 Young writer not at European get-together (6)
8 Ornamental plant, a primary home for parasite (5)
13 Quietly feel bitter about being here (7)
15 Imbibe a whiskey in one African country after another (6)
16 Fashionable pull down bar (5)
17 Pertaining to judge of hearing (6)
20 Girl is back fom Aral Sea, by the sound of it (5)

Solution to Crossword NO 599 JD

ACROSS: 1 Tendonitis; 7 Ant; 8 Ringleader; 11 Totalled; 12 Aqua; 14 Greece; 15 Notary; 17 Late; 18 Macaroni; 21 Antagonist; 22 Opt; 23 Hell-raiser

DOWN: 1 Turn to gold; 2 Nineteenth; 3 Oil slick; 4 Isabel; 5 Ides; 6 Ink; 9 & 20 Aquarobics spa; 10 Baby sitter; 13 Coca-cola; 16 Camail; 19 Anne; 20 See 9

ON MARGIN

TROUBLE DOWN UNDER

Piker has been much entertained by the political shenanigans in Australia, where they just ousted their fifth prime minister in five years. Perhaps it's just time to elect Aussie mining magnate Clive Palmer, who started his own political party in 2013, humbly calling it the Palmer United Party, to the top job.

Unlike many politicians, he seems to at least grasp the inner workings of parliament, explaining it as follows in an interview with the *Financial Times* last year: "Parliament is like having lots of people on one side that know nothing. They are opposed by a lot of other people on the other side who also know nothing. They are all advised by a lot of people, who know absolutely nothing – it's a fine art, parliament."

BITS 'N PIECES

A sailor sits down at the bar and orders a drink. He looks to his left and there's a pirate with a peg leg, hook hand, and eye patch.

The sailor asks how the leg was lost. "A gator ripped off me leg while I was buryin' gold in Florida."

Next, he asks the pirate how he lost his hand. "A shark bit me hand off while I was throwin' the gator into the sea."

Amazed at the pirate's bravery, the sailor asks how the man lost his eye. "A seagull pooped in me eye."

Shocked, the sailor exclaims: "A bird pooped in your eye and you lost it?"

The pirate says: "It was me first day with the hook."

STATISTICS

A biologist, a chemist and a statistician are out hunting. The biologist shoots at an antelope and misses 1.5m to the left. The chemist takes a shot and misses 1.5m to the right. The statistician yells: "We got 'em!"

IT'S ART

How many surrealists does it take to screw in a light bulb? A fish.

DO YOU HAVE THE ANSWER?

What do you get when you cross a joke with a rhetorical question?

BRIGHT

A photon checks into a hotel and the receptionists asks him if he has any luggage.

The photon replies: "No, I'm travelling light."



"Do we have anything in gluten-free shares?"

VERBATIM

Ruth Buzzi @Ruth_A_Buzzi
I just asked my stockbroker for advice on what to buy.

He suggested canned goods and ammo.

Trevor Noah @Trevornoah
Note to self – if you dig up graves you're a criminal and creep but if you wait long enough you're an archaeologist. #PatienceIsKey

Charles H Savage @csavagegt247
I've had it [chances of a Fed rate hike in September] at zero for a year! When 80% of analysts have it as a racing certainty I'd rather be the bookie :)

Jon Boorman @JBoorman
Corrections and bear markets don't determine who's right. They determine who's left.

Exploding Unicorn @XplodingUnicorn
5-year-old: My teacher said this project needs adult supervision.
Me: OK, what do you need me to do?
5-year-old: Go find Mom.

Arnold Ambiel @ajambiel
I'm so busy I don't know whether I found a rope or lost my horse. – Mark Schaefer #quote

"If you're going to be crazy, you have to get paid for it or else you're going to be locked up."
– Hunter S. Thompson, American journalist and author (1937–2005)

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